Financial Statements

Aurinia Pharmaceuticals Inc.

YEAR END 15

For the year ended December 31, 2015

Aurinia

Aurinia Pharmaceuticals Inc.

Consolidated Financial Statements
December 31, 2015
(expressed in thousands of US dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Aurinia Pharmaceuticals Inc. (the Company) are the responsibility of management.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards 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 (the Board) 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 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 reappointment of the external auditors.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the Company's independent auditors, in accordance with Canadian generally accepted 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"

Chief Executive Officer

(Signed) "Dennis Bourgeault"

Chief Financial Officer

Victoria, British Columbia
March 18, 2016

March 18, 2016

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, 2015 and December 31, 2014 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity (deficit) and cash flows for the years then ended, 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
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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, 2015 and December 31, 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Aurinia Pharmaceuticals Inc.'s ability to continue as a going concern.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Aurinia Pharmaceuticals Inc.

Consolidated Statements of Financial Position

As at December 31, 2015 and December 31, 2014

(expressed in thousands of US dollars)

	2015 $	2014 $
Assets		
Current assets		
Cash and cash equivalents (note 5)	5,756	22,706
Short-term investment (note 6)	9,997	9,998
Accounts receivable	47	92
Prepaid expenses and deposits	734	755
	16,534	33,551
Property and equipment (note 7)	36	52
Acquired intellectual property and other intangible assets (note 8)	16,997	18,489
Prepaid deposits	-	286
	33,567	52,378
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	3,333	2,464
Current portion of deferred revenue (note 10)	168	217
Provision for restructuring costs (note 15)	116	155
	3,617	2,836
Deferred revenue (note 10)	678	847
Provision for restructuring costs (note 15)	-	116
Contingent consideration (note 11)	3,810	3,473
Derivative warrant liability (note 12)	5,499	11,235
	13,604	18,507
Shareholders' Equity		
Share capital		
Common shares (note 13)	261,645	259,712
Warrants (note 13)	1,297	1,804
Contributed surplus	15,579	12,306
Accumulated other comprehensive loss	(805)	(805)
Deficit	(257,753)	(239,146)
	19,963	33,871
	33,567	52,378

Going concern (note 2)

Commitments and contingencies (note 22)

Approved by the Board of Directors

(signed) Richard Glickman
Director

(signed) Charles A. Rowland Jr.
Director

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

Aurinia Pharmaceuticals Inc.

Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31, 2015 and December 31, 2014

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

	2015 $	2014 $
Revenue (note 10)		
Licensing revenue	118	118
Research and development revenue	100	100
Contract services	17	60
	235	278
Expenses		
Research and development (note 14)	15,982	9,112
Corporate, administration and business development (note 14)	6,263	6,890
Amortization of acquired intellectual property and other intangible assets (note 8)	1,536	1,480
Amortization of property and equipment	22	41
Contract services	12	37
Other expense (income) (note 16)	128	(1,703)
Restructuring costs (note 15)	-	1,068
	23,943	16,925
Net loss before gain (loss) on derivative warrant liability	(23,708)	(16,647)
Gain (loss) on derivative warrant liability (note 12)	5,101	(2,774)
Net loss for the year	(18,607)	(19,421)
Other comprehensive loss		
Translation adjustment that will not be reclassified subsequently to loss	-	(605)
Comprehensive loss for the year	(18,607)	(20,026)
Net loss per common share (note 18) (expressed in $ per share)		
Basic and diluted loss per common share	(0.58)	(0.67)

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, 2015 and December 31, 2014

(expressed in thousands of US dollars)

	Common shares $	Warrants $	Contributed surplus $	Deficit $	Accumulated other comprehensive loss $	Shareholders' equity (deficit) $
Balance – January 1, 2015	259,712	1,804	12,306	(239,146)	(805)	33,871
Exercise of warrants (note 13(b))	1,020	(335)	-	-	-	685
Exercise of cashless warrants	636	-	-	-	-	636
Expiry of warrants	-	(172)	172	-	-	-
Exercise of stock options	277	-	(123)	-	-	154
Stock-based compensation (note 13(c))	-	-	3,224	-	-	3,224
Net loss and comprehensive loss for the year	-	-	-	(18,607)	-	(18,607)
Balance – December 31, 2015	261,645	1,297	15,579	(257,753)	(805)	19,963
Balance – January 1, 2014	220,908	2,256	10,074	(219,725)	(200)	13,313
Issue of units (note 13(a))	40,059	-	-	-	-	40,059
Share issue costs	(2,844)	-	-	-	-	(2,844)
Exercise of warrants (note 13(b))	1,589	(406)	-	-	-	1,183
Expiry of warrants	-	(46)	46	-	-	-
Stock-based compensation (note 13(c))	-	-	2,186	-	-	2,186
Net loss for the year	-	-	-	(19,421)	-	(19,421)
Comprehensive loss for the year	-	-	-	-	(605)	(605)
Balance – December 31, 2014	259,712	1,804	12,306	(239,146)	(805)	33,871

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, 2015 and December 31, 2014

(expressed in thousands of US dollars)

	2015 $	2014 $
Cash flow provided by (used in)		
Operating activities		
Net loss for the year	(18,607)	(19,421)
Adjustments for		
Amortization of deferred revenue	(218)	(218)
Amortization of property and equipment	22	41
Amortization of acquired intellectual property and other intangible assets	1,536	1,480
Change in value of short-term investment	(25)	(4)
Revaluation of contingent consideration	337	848
Change in provision for restructuring costs	(155)	271
Loss (gain) on derivative warrant liability	(5,101)	2,128
Stock-based compensation	3,224	2,186
Gain on warrant liability	-	(2,834)
Share issue costs allocated to derivative warrant liability	-	646
Share issue costs allocated to warrant liability	-	203
Gain on disposal of property and equipment	-	(4)
	(18,987)	(14,678)
Net change in other operating assets and liabilities (note 20)	1,221	(2,230)
Net cash used in operating activities	(17,766)	(16,908)
Investing activities		
Purchase of short-term investment	(19,983)	(9,994)
Proceeds on disposal of short-term investments	20,010	-
Proceeds on disposal of equipment	-	4
Purchase of equipment and leaseholds	(6)	(58)
Capitalized patent costs	(44)	(32)
Net cash used in investing activities	(23)	(10,080)
Financing activities		
Payment of financing milestone to ILJIN	-	(1,600)
Proceeds from exercise of warrants	685	1,183
Proceeds from exercise of stock options	154	-
Proceeds from issuance of units, net	-	48,307
Net cash generated from financing activities	839	47,890
Effect of exchange rate changes on cash and cash equivalents	-	(17)
Increase (decrease) in cash and cash equivalents during the year	(16,950)	20,885
Cash and cash equivalents – Beginning of year	22,706	1,821
Cash and cash equivalents – End of year	5,756	22,706

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 (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.

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

2 Going concern

These consolidated financial statements have been prepared using International Financial Reporting Standards (IFRS) applicable to a going concern, which assumes the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the ordinary course of business. The Company has no source of operating cash flow and operations to date have been funded primarily from the issue of share capital.

As at December 31, 2015, the Company had net working capital of $12,917,000 compared to $30,715,000 as at December 31, 2014. For the year ended December 31, 2015, the Company reported a loss of $18,607,000 (2014 – $19,421,000) and a cash outflow from operating activities of $17,766,000 (2014 – $16,908,000). As at December 31, 2015, the Company had an accumulated deficit of $257,753,000 (2014 – $239,146,000).

Management believes the Company has sufficient working capital to reach the 24-week primary endpoint for its Phase 2b lupus nephritis (LN) clinical trial, which completed enrollment on January 18, 2016. The Company expects to release the 24-week primary endpoint data in the third quarter of 2016. Management considers this a key milestone event for the Company. In order to complete the remainder of this LN clinical trial and be able to undertake further development and commercialization of voclosporin, the Company will need to raise additional funds within the next 12 months.

On October 16, 2015, the Company filed a Short Form Base Shelf Prospectus (the Shelf Prospectus). The Shelf Prospectus and corresponding shelf registration statement allows the Company to offer up to $250,000,000 of common shares, warrants and subscription receipts or any combination thereof during the 25-month period that the Shelf Prospectus is effective. The Shelf Prospectus is intended to give the Company the capability to access new capital from time to time. The Company intends to undertake an offering within the next 12 months of operations in order to sustain the Company's operations and complete the current Phase 2b LN clinical trial.

(expressed in US dollars, tabular amounts in thousands)

The outcome of such an offering is dependent on a number of factors outside of the Company's control. The nature of the biotechnology sector and current financial equity market conditions make the success of any future financing ventures uncertain. There is no assurance any new financings will be successful. This uncertainty casts significant doubt upon the Company's ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The success of the Company and recoverability of amounts expended on research and development to date, including capitalized intangible assets, are dependent on the ability of the Company to raise additional cash, then to complete development activities, receive regulatory approval and to be able to commercialize voclosporin in the key markets and indications, whereby the Company can achieve future profitable operations. Depending on the results of the research and development programs and availability of financial resources, the Company may accelerate, terminate, cut back on certain areas of research and development, commence new areas of research and development or curtail certain or all of the Company's operations. There is no assurance these initiatives will be successful.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues and expenses and statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

3 Basis of preparation

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with 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 16, 2016.

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)

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 was accounted for prospectively, was 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 International Accounting Standard (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 consolidated financial statements for all years and periods presented have been translated into US$ presentation currency. In addition, the Company adopted a policy of not reassessing the classification of warrants after initial issuance and therefore there was no effect to previously issued warrants exercisable in CA$.

Summary of significant accounting policies and changes in 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.

Intercompany 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 US$ 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 consolidated statements of operations and comprehensive loss.

Revenue recognition

Payments received under collaboration agreements may include upfront payments, milestone payments, contract services, royalties and licence 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.

Licence fees representing non-refundable payments received at the time of signature of licence agreements are recognized as revenue upon signature of the licence agreements when the Company has no significant future performance obligations and collectibility 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, collectibility 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.

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 consolidated statements of operations and comprehensive loss 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 and office equipment and furniture	20%
Computer equipment and software	33.3%

(expressed in US dollars, tabular amounts in thousands)

Acquired intellectual property and other 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 consolidated statements of operations and comprehensive loss as incurred.

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 consolidated statements of operations and comprehensive loss. Purchased intellectual property and reacquired rights are capitalized and amortized on a straight-line basis in the consolidated statements of operations and comprehensive loss over the patent life, which is typically 20 years. The Aspreva Lupus Management Study database is amortized over 10 years.

Impairment of non-financial assets

Property and equipment and acquired intellectual property and other intangible assets with a finite useful life are tested for impairment when events or changes in circumstances indicate 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 from the issue of common share purchase warrants (warrants) treated as equity 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 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.

(expressed in US dollars, tabular amounts in thousands)

Research and development

Research costs are expensed in the year incurred. These costs include salaries and benefits for research and development personnel, costs associated with clinical trials managed by contract research organizations, and other costs associated with research, development and regulatory activities. The Company uses external service providers to conduct clinical trials, to manufacture supplies of product candidates and to provide various other research and development related products and services. Development costs are expensed in the year incurred unless they meet the criteria for capitalization which include technical feasibility, the intention to use or sell, the ability to use or sell, probable future economic benefits and the ability to develop the intangible asset. No development costs have been capitalized to date.

Stock-based compensation

The Company records stock-based compensation related to employee stock options granted using the estimated fair value of the options at the date of grant. The estimated fair value 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.

Income tax

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

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 consolidated statements of financial position dates 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 the assets can be recovered.

(expressed in US dollars, tabular amounts in thousands)

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.

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 statements of operations and comprehensive loss within other expense (income) 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 accounts receivables, cash and cash equivalents and short-term investment 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.

(expressed in US dollars, tabular amounts in thousands)

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 consolidated statements of operations and comprehensive loss. Interest is determined using the effective interest method, and impairment losses and translation differences on monetary items are recognized in the consolidated statements of operations and comprehensive loss. The Company does not have any available for sale assets.

iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost are composed of accounts payable 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, accounts payableS are measured at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

v) Financial liabilities at fair value: Contingent consideration provided to ILJIN Life Science Co., Ltd. (ILJIN) (see note 11) and derivative warrant liability (see note 12) are financial liabilities recorded at fair value with subsequent changes in fair value recorded in the consolidated statements of operations and comprehensive loss.

Impairment of financial assets

- Financial assets carried at amortized cost

  At each statement of financial position date, the Company assesses whether there is objective evidence a financial asset or group of financial assets is impaired. A financial asset or 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.

  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 statements of operations and comprehensive loss. 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.

(expressed in US dollars, tabular amounts in thousands)

New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016 and have not been applied in preparing these consolidated financial statements. None of these new standards or amendments is expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

- 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 or loss. 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. 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, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of goods or services and thus has the ability to direct the use and obtain the benefits from the goods or services. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Company is yet to assess the impact of IFRS 15.

  In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low value assets; however, this exemption can only be applied by lessees. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application if IFRS 15 is also applied. Management is assessing the potential impact the adoption of IFRS 16 will have on the Company's consolidated financial statements.

  There are no other IFRS or International Financial Reporting Interpretations Committee (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Company.

(expressed in US dollars, tabular amounts in thousands)

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 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 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 (note 11). 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 on 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 $734,000 as at December 31, 2015. If the probability for success were to decrease by a factor of 10% for each milestone, this would decrease the obligation by approximately $734,000 as at December 31, 2015. If the discount rate were to increase to 12%, this would decrease the obligation by approximately $166,000. If the discount rate were to decrease to 8%, this would increase the obligation by approximately $181,000.

(expressed in US dollars, tabular amounts in thousands)

- Derivative warrant liability

  Warrants issued pursuant to a private placement in 2014 that are exercisable in cash or on a cashless basis resulting in a variable number of shares being issued are considered a derivative liability and therefore measured at fair value.

  The Company uses the Black-Scholes option pricing model to estimate fair value at each reporting date. The key assumptions used in the model are the expected future volatility in the price of the Company's shares and the expected life of the warrants. The impact of changes in key assumptions is described in note 12.

- 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 (deficit). 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 2015, this would have increased annual stock compensation expense by approximately $147,000. 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 $158,000.

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 licence fees is deemed appropriate, subsequent revenue recognition is often determined based on certain assumptions and estimates, the Company's continuing involvement in the arrangement, the benefits expected to be derived by the customer and expected patent lives. To the extent that any of the key assumptions or estimates change, future operating results could be affected.

- 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 as at December 31, 2015, management concluded there were none.

(expressed in US dollars, tabular amounts in thousands)

5 Cash and cash equivalents

	2015 $	2014 $
Cash at bank and on hand	5,756	2,706
Short-term bank deposits	-	20,000
	5,756	22,706

6 Short-term investment

The short-term investment, recorded initially at fair value and subsequently at amortized cost using the effective interest method, is a six-month HSBC Bank US denominated discount note due on February 10, 2016, with an amortized cost of $9,997,000 and an initial cost of $9,984,000 (2014 – six-month HSBC US denominated discount note with an amortized cost of $9,998,000 and an initial cost of $9,991,000). The note has an effective interest rate of 0.311% (2014 – 0.18%).

7 Property and equipment

	Leasehold improvements $	Scientific and office equipment and furniture $	Computer equipment and software $	Total $
Year ended December 31, 2015				
As at January 1, 2015	28	11	13	52
Additions	-	-	6	6
Amortization	(12)	(3)	(7)	(22)
Net book value	16	8	12	36
As at December 31, 2015				
Cost	1,727	1,169	149	3,045
Accumulated amortization	(1,711)	(1,161)	(137)	(3,009)
Net book value	16	8	12	36
Year ended December 31, 2014				
As at January 1, 2014	-	7	30	37
Additions	34	9	15	58
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

(expressed in US dollars, tabular amounts in thousands)

For the year ended December 31, 2015, the Company disposed of fully depreciated equipment for proceeds of $nil, resulting in a gain of $nil (2014 – $4,000 resulting in a gain of $4,000).

8 Acquired intellectual property and other intangible assets

	Patents $	Acquired intellectual property and reacquired rights $	Total $
Year ended December 31, 2015			
Opening net book value	1,291	17,198	18,489
Additions	44	-	44
Amortization for the year	(251)	(1,285)	(1,536)
Closing net book value	1,084	15,913	16,997
As at December 31, 2015			
Cost	2,274	19,075	21,349
Accumulated amortization	(1,190)	(3,162)	(4,352)
Net book value	1,084	15,913	16,997
Year ended December 31, 2014			
Opening net book value	1,522	19,360	20,882
Additions	32	-	32
Amortization for the year	(194)	(1,286)	(1,480)
Translation adjustment	(69)	(876)	(945)
Closing net book value	1,291	17,198	18,489
As at December 31, 2014			
Cost	2,366	19,075	21,441
Accumulated amortization	(1,075)	(1,877)	(2,952)
Net book value	1,291	17,198	18,489

For the year ended December 31, 2015, the Company wrote off $136,000 of fully amortized patent costs related to specific non-core abandoned voclosporin patents/ patent applications (2014 – $nil). For the year ended December 31, 2014, the Company wrote off $191,000 of fully amortized costs related to the disposition of the Non-Immunosuppressive Cyclosporine Analogue Molecules (NICAMs) patent portfolio (see note 15).

(expressed in US dollars, tabular amounts in thousands)

9 Accounts payable and accrued liabilities

	2015 $	2014 $
Trade payables	2,079	1,392
Other accrued liabilities	512	390
Employee accruals	742	682
	3,333	2,464

10 Revenue and deferred revenue

	2015 $	2014 $
Revenue is composed of		
Licensing revenue – 3SBio	118	118
Research and development revenue – Paladin	100	100
Contract services	17	60
	235	278

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.

Development, distribution and licence agreement with 3SBio, Inc.

On August 23, 2010, the Company and 3SBio, Inc. (3SBio) completed a Development, Distribution and Licence 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 licence 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 that 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 amortized into licensing revenue on a straight-line basis to 2022.

Plan of arrangement with Paladin Labs Inc. (Paladin)

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

(expressed in US dollars, tabular amounts in thousands)

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 amortized into research and development revenue on a straight-line basis over the remaining life of the agreement, which ends in June 2016.

11 Contingent consideration

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

There were two categories of contingent consideration. The first was a financing milestone of $1,600,000 payable on 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 estimated to occur as follows:

	$
2017	4,000
2020	6,000

The fair value of this portion of contingent consideration as at December 31, 2015 was estimated to be $3,810,000 (December 31, 2014 – $3,473,000) and was determined by applying the income approach. The fair value estimates as at December 31, 2015 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, 2015 was $337,000 (2014 – $848,000), which was comprised of $337,000 (2014 – $315,000) to reflect the reduction in time until reaching the milestone dates and $nil (2014 – $533,000) to reflect the reduction of the discount rate to 10% as 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 as at December 31, 2013 was estimated to be $2,690,000 and was determined by applying the income approach. The fair value estimates as 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)

12 Derivative warrant liability

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 holders of the Warrants issued pursuant to the February 14, 2014 private placement 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 five-day weighted average market price less the exercise price with the difference divided by the weighted average market price. If a Warrant holder exercises this option, there will be variability in the number of shares issued per Warrant.

In accordance with IFRS, a contract to issue a variable number of shares fails to meet the definition of equity and must instead be classified as a derivative liability and measured at fair value with changes in fair value recognized in the consolidated statements of operations and comprehensive loss at each period-end. The derivative liability will ultimately be converted into the Company's equity (common shares) when the Warrants are exercised, or will be extinguished on the expiry of the outstanding Warrants, and will not result in the outlay of any cash by the Company.

In the first quarter ended March 31, 2015, a holder of these Warrants elected this option and the Company issued 66,000 common shares on the cashless exercise of 182,000 Warrants. These Warrants had a fair value of $636,000 at the date of exercise, determined using the Black-Scholes warrant pricing model. This amount was transferred from derivative warrant liability to common shares.

As at December 31, 2015, the Company recorded a derivative warrant liability of $5,499,000 (December 31, 2014 – $11,235,000), which resulted in a gain on revaluation of a derivative warrant liability for the year ended December 31, 2015 of $5,101,000 related to the outstanding derivative liability warrants (December 31, 2014 – loss on revaluation of a derivative warrant liability of $2,774,000).

The Company considers expected volatility of its common shares in estimating its future stock price volatility. The risk-free interest rate for the expected life of the Warrants 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 on the contractual term.

The Company uses the Black-Scholes option pricing model to estimate fair value. The following weighted average assumptions were used to estimate the fair value of the derivative warrant liability on December 31, 2015 and December 31, 2014.

	2015 $	2014 $
Annualized volatility	84%	85%
Risk-free interest rate	1.19%	1.32%
Expected life of warrants in years	3.13	4.13
Dividend rate	0.0%	0.0%
Market price	2.47	3.67
Fair value per Warrant	1.21	2.37

(expressed in US dollars, tabular amounts in thousands)

This is a Level 3 recurring fair value measurement.

The key Level 3 inputs used by management to determine the fair value are the market price and the expected volatility. If the market price were to increase by a factor of 10%, this would increase the obligation by approximately $833,000 as at December 31, 2015. If the market price were to decrease by a factor of 10%, this would decrease the obligation by approximately $807,000. If the volatility were to increase by 10%, this would increase the obligation by approximately $544,000. If the volatility were to decrease by 10%, this would decrease the obligation by approximately $574,000 as at December 31, 2015.

13 Share capital

a) Common shares

Authorized
Unlimited common shares without par value

Issued

	Common shares	
	Number (in thousands)	**$**
Balance as at January 1, 2015	31,818	259,712
Issued pursuant to exercise of warrants	348	1,020
Issued pursuant to exercise of derivative liability warrant (note 12)	66	636
Issued pursuant to exercise of stock options	55	277
Balance as at December 31, 2015	32,287	261,645
Balance as at January 1, 2014	12,375	220,908
Issued pursuant to February 14, 2014 private placement	18,919	40,059
Share issue costs related to private placement	-	(2,844)
Issued pursuant to exercise of warrants	524	1,589
Balance as at December 31, 2014	31,818	259,712

On February 14, 2014, the Company completed a $52,000,000 private placement as described in note 12.

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 and $646,000 were allocated to the contingent warrants and derivative warrant liability, respectively, and expensed in the year.

(expressed in US dollars, tabular amounts in thousands)

In addition, in the event 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 that was initially estimated at February 14, 2014.

As there was a degree of uncertainty in achieving the reduction of its Board of Directors 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 remeasurement of warrant liability of $646,000 in other expense (income) in the second quarter ended June 30, 2014.

(expressed in US dollars, tabular amounts in thousands)

b) Warrants

Issued

	Warrants	
	Number (in thousands)	**$**
Balance as at January 1, 2015	1,724	1,804
Warrants exercised	(348)	(335)
Warrants expired	(8)	(172)
Balance as at December 31, 2015	1,368	1,297
Balance as at January 1, 2014	2,318	2,256
Warrants exercised	(523)	(406)
Warrants expired	(71)	(46)
Balance as at December 31, 2014	1,724	1,804

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 expired on June 18, 2015. The fair value attributed to these warrants using the Black-Scholes option pricing model was $172,000.

A summary of the outstanding warrants as of December 31, 2015 is presented below:

Expiry date	**Number** (in thousands)	**Weighted average exercise price $**
Exercisable in CA$		
September 20, 2016 (CA$2.25 and CA$2.50)	1,039	1.80
June 26, 2018 (CA$2.25 and CA$2.50)	315	1.81
December 31, 2018 (CA$2.00)	14	1.50
	1,368	1.80
Exercisable in US$		
February 14, 2019 (note 12)	4,548	3.22
	5,916	2.89

c) Stock options and compensation expense

The maximum number of common shares issuable under the Stock Option Plan is equal to 10% of the issued and outstanding common shares at the time the common shares are reserved for issuance. As at December 31, 2015, there were 32,287,000 common shares of the Company issued and outstanding, resulting in a maximum of 3,228,700 options available for issuance under the Stock Option Plan. As at

(expressed in US dollars, tabular amounts in thousands)

December 31, 2015, an aggregate total of 2,713,000 options were outstanding, representing 8.4% 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 that expire may be re-granted. The Board of Directors approves the vesting criteria and periods at its discretion. The options issued under the plans are accounted for as equity-settled share-based payments.

A summary of the status of the Company's stock option plans as of December 31, 2015 and 2014 and changes during the years ended on those dates is presented below:

	2015		2014	
	Number	**Weighted average exercise price in CA$**	**Number**	**Weighted average exercise price in CA$**
Outstanding – Beginning of year	1,376	3.68	276	5.04
Granted	1,456	4.29	1,212	3.51
Exercised	(55)	3.50	-	-
Expired	(22)	3.50	(34)	7.50
Cancelled	(25)	4.25	(78)	4.56
Forfeited	(17)	4.72	-	-
Outstanding – End of year	2,713	4.00	1,376	36.8
Options exercisable – End of year	2,063	3.98	843	371

On January 6, 2015, the Company granted 960,000 stock options to directors, officers and employees of the Company at a price of $3.59 (CA$4.25) per common share.

On April 7, 2015, the Company granted 48,000 stock options to employees of the Company at a price of $4.15 (CA$5.19) per common share.

On June 2, 2015, the Company granted 60,000 stock options to the new directors appointed at the Annual General Meeting of Shareholders held on May 26, 2015 at a price of $3.47 (CA$4.31) per common share.

On August 17, 2015, the Company granted 323,000 stock options to officers and a new employee of the Company at a price of $3.40 (CA$4.45) per common share.

On December 18, 2015, the Company granted 65,000 stock options to employees of the Company at a price of $2.43 (CA$3.39) per common share.

The stock options granted in 2015 all vest in equal amounts over 12 months and are exercisable for a term of five years.

(expressed in US dollars, tabular amounts in thousands)

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. These options are exercisable for a term of five years and vest in equal amounts over 12 months.

Application of the fair value method resulted in charges to stock-based compensation expense of $3,224,000 for the year ended December 31, 2015 (2014 – $2,186,000) with corresponding credits to contributed surplus. For the year ended December 31, 2015, stock compensation expense has been allocated to research and development expense in the amount of $862,000 (2014 – $nil); corporate and administration expense in the amount of $2,362,000 (2014 – $1,933,000); and restructuring costs in the amount of $nil (2014 – $253,000).

The Company used the Black-Scholes option pricing model to estimate the fair value of the options granted in 2015 and 2014.

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

	2015 $	2014 $
Annualized volatility	85%	85%
Risk-free interest rate	0.92%	1.73%
Expected life of options in years	3.9 years	7.1 years
Estimated forfeiture rate	11.1%	11.9%
Dividend rate	0.0%	0.0%
Exercise price	$3.51	$3.19
Market price on date of grant	$3.51	$3.19
Fair value per common share option	$2.13	$2.38

The Company considers the history 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 on the contractual term taking into account expected employee exercise and expected post-vesting employment termination behaviour.

(expressed in US dollars, tabular amounts in thousands)

The following table summarizes information on stock options outstanding as at December 31, 2015:

	Options outstanding		Options exercisable
Range of exercise prices CA$	Number outstanding (in thousands)	Weighted average remaining contractual life (years)	Number outstanding (in thousands)
3.39	1,292	7.82	996
4.25	1,313	4.19	990
5.19	38	4.27	26
7.00	70	0.59	51
	2,713	5.83	2,063

14 Nature of expenses

	2015 $	2014 $
Research and development		
Study contracts, consulting and other outside services	10,999	6,584
Drug supply and distribution	1,983	894
Wages and employee benefits	1,429	1,030
Stock compensation expense	862	-
Patent annuity and legal fees	313	316
Travel	274	212
Other	122	76
	15,982	9,112

	2015 $	2014 $
Corporate, administration and business development		
Stock compensation expense	2,362	1,933
Wages and benefits	1,721	2,003
Professional and consulting fees and services	698	952
Trustee fees, filing fees and other public company costs	364	732
Directors fees	308	455
Office, insurance, information technology costs and other	308	229
Travel and promotion	300	295
Rent, utilities and other facility costs	202	291
	6,263	6,890

(expressed in US dollars, tabular amounts in thousands)

15 Restructuring costs

	2015 $	2014 $
Severance, moving costs and other	-	475
Provision for loss on sublease agreement	-	340
Stock compensation expense	-	253
	-	1,068

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 $116,000 provision for restructuring costs liability as at December 31, 2015 is reflected on the consolidated statements of financial position in current liabilities as the sublease expires on 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 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, 2015.

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.

(expressed in US dollars, tabular amounts in thousands)

16 Other expense (income)

	2015 $	2014 $
Finance income		
Interest income	(50)	(65)
Finance costs		
Interest on drug supply loan	-	30
Other		
Revaluation adjustment on contingent consideration (note 11)	337	848
Foreign exchange loss (gain)	(159)	119
Gain on extinguishment of warrant liability (note 13(a))	-	(2,188)
Gain on remeasurement of warrant liability (note 13(a))	-	(646)
Share issue costs allocated to warrant liability	-	203
Gain on disposal of equipment	-	(4)
	178	(1,668)
	128	(1,703)

17 Income taxes

As at December 31, 2015, the Company has available Canadian non-capital losses in the amount of $51,848,000 (2014 – $40,156,000) to reduce Canadian taxable income in future years. The Company has unclaimed investment tax credits of $952,000 (2014 – $904,000) available to reduce future Canadian income taxes otherwise payable.

The losses and credits will expire as follows:

	Non-capital losses carried forward $	Federal investment tax credits $
2029	3,294	30
2030	2,341	50
2031	1,777	280
2032	7,224	184
2033	5,528	75
2034	13,029	131
2035	18,655	202

(expressed in US dollars, tabular amounts in thousands)

As at December 31, 2015 and December 31, 2014, temporary differences for which no deferred tax asset was recognized were as follows:

	2015 $	2014 $
Deferred tax assets (liabilities)		
Loss carry-forwards	13,892	10,062
Share issue costs	526	806
Deferred revenue	473	517
Property and equipment	3	1
Intangible assets	564	622
Other	46	20
	15,504	12,028
Potential tax assets not recognized	(15,504)	(12,028)
Net deferred tax assets	-	-

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 consolidated statements of financial position.

The difference between the expected income tax recovery based on a 26.0% (2014 – 25.0%) Canadian statutory tax rate and the actual income tax recovery is summarized as follows:

	2015 $	2014 $
Expected recovery at the statutory rate	(4,931)	(4,855)
Non-taxable revaluation and extinguishment of warrant liabilities – net	(291)	(241)
Non-deductible expenses including stock compensation	-	815
Non-deductible portion of capital gain	-	1
Unrecognized deductible temporary differences	5,222	4,280
Total income tax recovery	-	-

(expressed in US dollars, tabular amounts in thousands)

18 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, 2015 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 year ended December 31, 2015 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:

	2015 $	2014 $
Net loss for the year	(18,607)	(19,421)
		Number
Weighted average common shares outstanding	32,154	29,158
	$	**$**
Net loss per common share (expressed in $ per share)	(0.58)	(0.67)

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:

	2015	2014
Stock options	2,713	1,376
Warrants (derivative liability)	4,548	4,730
Warrants (equity)	1,368	1,724
	8,629	7,830

(expressed in US dollars, tabular amounts in thousands)

19 Segment disclosures

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

The following geographic information reflects revenue based on customer location.

	2015 $	2014 $
Revenue		
Canada	117	160
China	118	118
	235	278

20 Supplementary cash flow information

Net change in other operating assets and liabilities

	2015 $	2014 $
Accounts receivable	45	9
Prepaid expenses and deposits	307	(734)
Accounts payable and accrued liabilities	869	(308)
Drug supply loan	-	(1,197)
	1,221	(2,230)
Interest paid	-	30
Interest received	56	47

(expressed in US dollars, tabular amounts in thousands)

21 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:

	2015 $	2014 $
Salaries and short-term employee benefits	1,681	1,768
Bonuses accrued or paid	492	921
Director fees	230	456
Stock-based compensation	1,132	2,186
	3,535	5,331

Other

Stephen P. Robertson, a partner at Borden Ladner Gervais (BLG), commenced acting as the Company's corporate secretary on June 16, 2014. The Company incurred legal fees in the normal course of business to BLG of $101,000 for the year ended December 31, 2015 compared to $28,000 for the period from June 16, 2014 to December 31, 2014. Mr. Robertson receives no additional compensation for acting as the corporate secretary.

22 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. The estimated base rent plus operating costs on a monthly basis for the period from January 1, 2016 to May 31, 2017 is approximately $9,000 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 $1,300 per month.

The Company also entered into an eighteen (18) month agreement to rent an office in a shared office facility in Bellevue, Washington commencing on April 1, 2015 at a cost of approximately $5,000 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.

(expressed in US dollars, tabular amounts in thousands)

The cost of the subleased space for the remainder of the term (January 1, 2016 to September 30, 2016) is approximately $16,000 monthly and includes base rent, utilities and operating costs. The Company paid the head lessee a deposit of $145,000 for the last seven months of rent. The Company in turn, effective October 15, 2014, subleased out this 9,000 square foot space for approximately $6,000 per month for the remaining term of the sublease as it no longer required this space (see note 15 – provision for loss on sublease).

The Company recorded a sublease recovery of $81,000 for the year ended December 31, 2015 (2014 – $124,000) related to the Edmonton lab facility, which has been netted against the gross rent expense of $384,000 (2014 – $405,000).

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 $
2016	298	225
2017	43	16
	341	241

- 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 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 licence 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.

(expressed in US dollars, tabular amounts in thousands)

23 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 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.

24 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 consolidated statements 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 the carrying values of its short-term financial assets and financial liabilities, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and financing milestones payable to ILJIN (note 11), 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 11, and information on the fair value of derivative warrant liability is included in note 12.

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 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 23. 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. As described in note 2, the Company is dependent on raising additional financing to sustain operations and complete the clinical trial.

  All of the Company's financial liabilities are due within one year except for the contingent consideration, as described in note 11 and the derivative warrant liability, as described in note 12.

- Interest rate risk

  Interest rate risk is the risk 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 and 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 as at December 31, 2015 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 variations in exchange rates between the US$ and foreign currencies, primarily with the CA$, will affect the Company's operating and financial results.

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

	2015 $	2014 $
Cash and cash equivalents	116	138
Accounts receivable	39	60
Accounts payable and accrued liabilities	(803)	(860)
Net exposure	(648)	(662)

	Reporting date rate	
	2015 $	2014 $
CA$ – US$	0.723	0.862

  Based on the Company's foreign currency exposures noted above, varying the foreign exchange rates to reflect a ten percent strengthening of the CA$ would have increased the net loss by $65,000 assuming all other variables remained constant. An assumed 10% weakening of the CA$ would have had an equal but opposite effect to the amounts shown above, on the basis 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.

Management's Discussion and Analysis

Aurinia Pharmaceuticals Inc.

YEAR END 15

For the year ended December 31, 2015

Aurinia

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2015

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, 2015 and the Company's annual amended MD&A and restated audited financial statements for the year ended December 31, 2014. All amounts are expressed in United States (US) dollars unless otherwise stated. Dollar amounts in tabular columns are expressed in thousands of US dollars. This document is current in all material respects as of March 18, 2016.

The financial information contained in this MD&A and in the Company's audited 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 and approved by the Company's Audit Committee. This MD&A has been prepared with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Under the U.S./Canada Multijurisdictional Disclosure System, Aurinia is permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which are different from those in the United States.

FORWARD-LOOKING STATEMENTS

A statement is forward-looking when it uses what the Company knows and expects 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 product 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 or plans to advance the development of voclosporin;
- statements concerning partnership activities and health regulatory discussions;
- the timing of the release of the primary end-point results of the Company's voclosporin Phase 2b Lupus Nephritis clinical trial ("AURA") ;
- the timing of the analysis and review of the AURA data with the U.S. Food and Drug Administration ("FDA");
- the timing of commencement and completion of clinical trials;
- 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 and collaborative agreements to support the commercialization and development of its product;
- 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 AURA clinical trial program to gain a clearer understanding of voclosporin's time to onset of action in patients suffering from lupus nephritis ("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;
- Plans and objectives of management; and
- the Company's belief that utilizing a multi-targeted approach with voclosporin may help LN patients.

Such statements reflect the Company's current views with respect to future events and are subject to risks and uncertainties and are necessarily based on a number of estimates and assumptions that, while considered reasonable by the Company, as at the date of such

statements, are inherently subject to significant business, economic, competitive, political, scientific and social uncertainties and contingencies, many of which, with respect to future events, are subject to change. The factors and assumptions used by the Company to develop such forward-looking statements include, but are not limited to: the assumption that the Company will be able to reach agreements with regulatory agencies on executable development programs; the assumption that recruitment to clinical trials will occur as projected; the assumption that the Company will successfully complete its clinical programs on a timely basis, including the AURA clinical trial currently in progress, to enable the Company to proceed to conduct future required LN clinical trials and meet regulatory requirements for approval of marketing authorization applications and new drug approvals; the assumption the regulatory requirements will be maintained; the assumption that the Company will be able to manufacture and secure a sufficient supply of voclosporin to successfully complete the development and commercialization of voclosporin; the assumption that the Company's patent portfolio is sufficient and valid; the assumption that there is a potential commercial value for other indications for voclosporin; the assumption that market data and reports reviewed by the Company are accurate; the assumptions relating to the availability of capital on terms that are favourable to the Company; the assumption that the Company will be able to attract and retain skilled staff; the assumption that general business and economic conditions will be maintained, and the assumptions relating to the feasibility of future clinical trials.

It is important to know that:

- 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 assumes no obligation to update any forward-looking statements even if new information becomes available, as a result of future events, new information, or for any other reason except as required by law.

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 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 AURA 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.

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. These 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 clinical stage 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 LN.

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

RECENT DEVELOPMENTS

AURA-LV ("AURA") Phase 2b LN clinical trial update - Patient enrollment completed

On January 19, 2016, the Company announced completion of patient enrollment of its AURA (Aurinia Urinary protein Reduction in Active lupus nephritis or AURA) clinical trial at 265 patients (the target number of patients was 258). This Phase 2b clinical trial, is a randomized, controlled, double-blind study comparing the efficacy of voclosporin as a component of multi-targeted therapy against placebo in achieving remission in patients with active LN. AURA is one of the largest prospective registration-quality studies ever conducted within this specific disease area.

The AURA trial has been designed to demonstrate that voclosporin can induce a rapid and sustained reduction of proteinuria with extremely low steroid exposure. The placebo-controlled trial assesses two doses of voclosporin, with all patients receiving background therapy of mycophenolate mofetil ("MMF") coupled with an aggressive oral corticosteroid taper. There will be a primary analysis to determine complete remission at week 24 (confirmed at 26 weeks) and various secondary analyses at both 24 and 48 weeks which include biomarkers and markers of non-renal lupus. This disease has shown to be particularly difficult to treat with fewer than 20% of patients achieving clinical remission at six months on existing regimens which often require unacceptably high steroid exposure in this predominantly young, female population.

Un-blinding and disclosure of the primary trial data is scheduled within approximately one month of the last enrolled patient completing 24 weeks of active treatment. Therefore, the Company expects that the primary end-point results of the AURA trial will be released in the third quarter ended September 30, 2016 of this year.

AURION study update

On February 8, 2016 the Company announced that it had completed a preliminary analysis of its AURION (Aurinia early Urinary protein Reduction Predicts Response) study. In the first seven patients that have reached at least eight weeks of therapy in the AURION study, 100% (7/7) have achieved at least a 25% reduction in proteinuria compared to study entry. A 25% reduction in proteinuria has been shown to be predictive of a positive clinical response at 24 weeks. All of the other pre-specified eight week biomarkers of active LN have also improved and are trending towards normalization. These biomarkers have also been shown to be predictive of positive clinical response rates at 24 weeks.

In the first eight weeks of a 48 week regimen of multi-target therapy including voclosporin in the AURION study, an overall mean reduction of proteinuria of 72% compared to pre-treatment levels was observed, and 57% (4/7) of these patients achieved complete remission as defined by a urinary protein creatinine ratio of $\leq$ 0.5mg/mg. Overall renal function as measured by eGFR in these patients has remained stable.

The AURION study is an open label, single arm, exploratory study assessing the ability of biomarkers at eight weeks to predict clinical response rates at 24 and 48 weeks in subjects taking voclosporin 23.7mg twice daily in combination with standard of care,

MMF and corticosteroids, in patients with active LN. It is the first ever trial with voclosporin in this patient population and supports the Company's hypothesis that utilizing a multi-targeted approach with voclosporin may help LN patients.

FDA Fast Track

On March 2, 2016 the Company announced that the FDA granted Fast Track designation for *voclosporin*, the Company's next generation calcineurin inhibitor, for the treatment of LN.

The Fast Track program was created by the FDA to facilitate the development and expedite the review of new drugs that are intended to treat serious or life-threatening conditions and that demonstrate the potential to address significant unmet medical needs. Compounds that receive this FDA designation benefit from more frequent meetings and communications with the FDA to review the drug's development plan including the design of clinical trials and the use of biomarkers to support approval. Additionally, Fast Track designation allows the Company to submit parts of the New Drug Application ("NDA") on a rolling basis for review as data becomes available. The Company expects to analyse and review the AURA data with the FDA later in 2016 in order to reach agreement on further clinical development requirements.

2015 CORPORATE DEVELOPMENT

The Company received a final receipt from the British Columbia Securities Commission on October 19, 2015 for the Short Form Base Shelf Prospectus (the "Shelf Prospectus") of Aurinia dated October 16, 2015. The Company had previously filed on September 17, 2015 the preliminary short form base shelf prospectus with the securities commissions in each of the provinces of Ontario, Alberta and British Columbia in Canada, and a corresponding shelf registration statement on Form F-10 with the U.S. Securities and Exchange Commission (the "SEC") under the U.S./Canada Multijurisdictional Disclosure System.

The Shelf Prospectus and corresponding shelf registration statement allows Aurinia to offer up to US$250 million of common shares, warrants and subscription receipts or any combination thereof during the 25-month period that the Shelf Prospectus is effective. The Shelf Prospectus is intended to give Aurinia the capability to access new capital from time to time. The amount and timing of any future offerings will be based on the Company's financial requirements and market conditions at the time.

The specific terms of any future offering under the Shelf Prospectus will be established at the time of such offering. At the time any of the securities covered by the Shelf Prospectus are offered for sale, a prospectus supplement containing specific information about the terms of such offering will be filed with applicable Canadian securities regulatory authorities and the SEC.

SUMMARY DESCRIPTION OF BUSINESS

The Company has, since September 20, 2013, rebranded and restructured itself around a strategy that focuses on the development of voclosporin for the treatment of LN.

Voclosporin is a novel therapeutic immunomodulating drug candidate which is a next generation calcineurin inhibitor ("CNI") It has been previously studied in the prevention of kidney rejection following transplantation, psoriasis and in various forms of uveitis (an ophthalmic disease). 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 (Dry Eye Syndrome), 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 approval status for the treatment of LN outside of Japan.

LN Clinical development program

In June, 2014 Aurinia announced the initiation of its planned global 258 patient AURA clinical trial to evaluate the safety and 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 and the requirement for life-long dialysis, or even death.

The AURA trial is being conducted in 20 countries and is a randomized, controlled, double-blind study comparing the efficacy of voclosporin against placebo in achieving remission in patients with active LN. This trial 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 systemic lupus erythematosus ("SLE").

The Company's clinical strategy involves layering voclosporin on top of the current standard of care (CellCept®/MMF and steroids) as a multi-targeted therapeutic ("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 open Investigational New Drug ("IND") with the FDA.

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

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. The AURION study, being conducted at two sites in Malaysia, will examine biomarkers of disease activity at eight weeks and their ability to predict response at 24 and 48 weeks.

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.
- Mitigating development risk by leveraging the Aspreva Lupus Management Study ("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 AURA clinical trial.
- Upon successful completion of the AURA clinical trial, plan to initiate the required Phase 3 clinical program for LN.
- Consider strategic opportunities for other voclosporin formulations and new autoimmune indications.
    - for example, 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 continue to explore its strategic options to exploit shareholder value from this intellectual property as resources permit.
- Consider other business development opportunities that would be a strategic fit for the Company or voclosporin under the right circumstances and timing.

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).

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 late 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 supports 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 it 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 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 in the market.

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 cytoskeletion 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.

RESULTS OF OPERATIONS

For the year ended December 31, 2015, the Company reported a consolidated net loss of $18.61 million or $0.58 loss per common share, as compared to a consolidated net loss of $19.42 million or $0.67 per common share for the year ended December 31, 2014.

The activity levels were higher across all operational components in 2015 as patient enrollment numbers for its AURA clinical trial increased significantly in 2015 as compared to 2014 with enrollment of the 265 patients completed shortly after the year ended December 31, 2015 as discussed in the “Recent Developments” section above.

In conjunction with the increased enrollment and treatment of patients in the AURA clinical trial, the costs associated with this trial increased significantly as would be expected. Research and development expenses increased by $6.87 million to $15.98 million in 2015 as compared to $9.11 million in 2014. Trial costs are forecast to decrease in 2016 relative to 2015 as costs will decrease as patients finish the trial.

Offsetting the increased research and development costs was a change in the fair value revaluation of the derivative warrant liability of $7.87 million as the Company recorded a gain of $5.10 million in 2015 compared to a loss of $2.77 million in 2014. The 2014 net income also reflected gains on extinguishment/re-measurement of a liability of $2.83 million associated with other contingent warrants. There was no similar item in 2015.

After adjusting for the non-cash impact of the revaluation of the warrant liability, the net loss from operations for the year ended December 31, 2015 was $23.74 million compared to $16.65 million for the year ended December 31, 2014.

Revenue and deferred revenue

The Company recorded revenue of $235,000 for the year ended December 31, 2015 compared to $278,000 for the year ended December 31, 2014.

The remaining deferred revenue related to the 3SBio Inc. and Paladin Labs Inc. fee payments is being amortized on a straight line basis which approximates how the Company expects to incur patent annuity costs for certain specified countries related to meeting its obligations under the terms of the applicable agreements.

Research and Development expenses

Research and development expenditures increased to $15.98 million for the year ended December 31, 2015 compared to $9.11 million for the year ended December 31, 2014. The increase in expenditures reflected higher costs related to drug distribution, patient recruitment, enrolment and treatment activities for the AURA clinical trial as the number of patients increased significantly during the 2015 fiscal year.

CRO and other third party clinical trial costs were $11.00 million for the year ended December 31, 2015 compared to $6.58 million for 2014.

The Company incurred drug supply costs, primarily for drug packaging, stability, distribution and freight, of $1.98 million for the year ended December 31, 2015 compared to $894,000 for 2014.

Salaries, annual incentive pay and employee benefits were $1.43 million for the year ended December 31, 2015 compared to $1.03 million for 2014. The Company incurred higher salaries and benefits in 2015 due to four additional employees being hired to assist with certain clinical trial functions.

The Company recorded non-cash stock compensation expense of $862,000 for year ended December 31, 2015 compared to $Nil for 2014 as stock options were granted to R&D personnel in 2015.

Patent annuity and other patent related legal fees expensed were consistent at $313,000 for the year ended December 31, 2015 compared to $316,000 for 2014.

Travel expenses related to research and development were $274,000 for the year ended December 31, 2015 compared to $212,000 for 2014 as additional travel was incurred in 2015 related to patient enrollment activities.

Miscellaneous other expenses, which included items such as clinical trial insurance, phone, publications and trial courier costs, increased to $122,000 in 2015 as opposed to $76,000 in 2014 due to increased activity levels in the AURA clinical trial.

Corporate, administration and business development expenses

Corporate, administration and business development expenses were $6.26 million for the year ended December 31, 2015 compared to $6.89 million for 2014.

Corporate, administration and business development expenses included non-cash stock-based compensation expense of $2.36 million for the year ended December 31, 2015 compared to $1.93 million for 2014. The increase in stock-based compensation expense in 2015 reflected compensation expense related from the grant of 988,000 stock options to Board directors and corporate, administration and business development personnel in 2015 plus compensation expense carried over from the 2014 granted stock options whereas the 2014 comparable expense related specifically to the 1,062,000 stock options granted to the Chief Executive Officer and the Board of Directors on February 18, 2014.

Other expenses were as follows:

Salaries, incentive pay accruals and employee benefits were $1.72 million for the year ended December 31, 2015 compared to $2.00 million for 2014. The decrease for the year ended December 31, 2015 from the comparable period in 2014 was primarily due to lower costs for its Canadian employees in 2015 due to the foreign exchange effect of a lower Canadian dollar relative to the US dollar.

Trustee fees, filing fees and other public company costs were $364,000 respectively for the year ended December 31, 2015 compared to $732,000 for 2014. Costs for 2015 included the costs of filing the Base Shelf Prospectus whereas the comparable period in 2014 included the costs for filing and obtaining the NASDAQ listing and incurring TSX listing fees upon the Company graduating to the TSX from the TSX-V exchange.

Professional and consulting fees were $698,000 for the year ended December 31, 2015 compared to $952,000 for 2014. The decrease resulted primarily from a reduction in 2015 of consulting fees related to business development activities and reduced accounting and auditing fees when compared to the corresponding period in 2014.

Director fees were $308,000 for the year ended December 31, 2015 compared to $455,000 for 2014. The decrease in director fees in 2015 reflected reduced compensation levels, a reduction in the number of Board members and the foreign exchange effect of a lower Canadian dollar relative to the US dollar.

Insurance, office, phone and information technology services increased to $308,000 in 2015 compared to $229,000 in 2014. The change was due to an increase of $102,000 in directors' and officers' liability insurance costs as coverage was increased to US$20 million in 2015 from CDN$15 million in 2014.

Travel and promotion expenses related to corporate, administration and business development were consistent at $300,000 for the year ended December 31, 2015 compared to $295,000 for 2014.

Rent, utilities and other facility costs decreased to $202,000 for the year ended December 31, 2015 compared to $291,000 for 2014 primarily due to exiting the Edmonton lab and office facility in the latter part of 2014.

Stock-based compensation expense

For stock option plan information and outstanding stock option details refer to note 13(c) of the audited consolidated financial statements for the year ended December 31, 2015.

On January 6, 2015, the Company granted 960,000 stock options to officers, directors, and employees of the Company at a price of $3.59 (CDN$4.25) per common share. On April 7, 2015, the Company granted 48,000 stock options to employees of the Company at a price of $4.15 (CDN$5.19). On June 2, 2015, the Company granted 60,000 stock options to directors of the Company at a price of $3.47 (CDN$4.31). On August 17, 2015 the Company granted 323,000 stock options to certain officers and a new employee of the Company at a price of $3.40 (CDN$4.45). On December 18, 2015 the Company granted 65,000 stock options to employees of the Company at a price of $2.43 (CDN$3.39). All of these options are exercisable for a term of five years and vest in equal amounts per month over twelve months.

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 $3.44 (CDN$3.91) which options are exercisable for a term of five years and vest in equal amounts over twelve months.

Application of the fair value method resulted in charges to stock-based compensation expense of $3.22 million for the year ended December 31, 2015 (2014 – $2.19 million) with corresponding credits to contributed surplus. For the year ended December 31, 2015, stock-based compensation expense has been allocated to research and development expense in the amounts of $862,000 (2014 –$Nil) corporate and administration expense in the amount of $2.36 million (2014 – $1.93 million); and restructuring costs in the amount of $Nil (2014 – $253,000).

Amortization of intangible assets

Amortization of intangible assets was consistent at $1.54 million for the year ended December 31, 2015 compared to $1.48 million recorded in 2014.

Restructuring costs

Restructuring costs were $Nil for the year ended December 31, 2015 compared to $1.07 million for 2014.

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 divesture of its early stage Non-Immunosuppressive Cyclosporine Analogue Molecules (“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 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, 2015.

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 the 150,000 stock options granted in February 2014 to the former Chief Executive Officer pursuant to his termination agreement.

Other expense (income)

The Company recorded other expense of $128,000 for the year ended December 31, 2015 compared to other income of $1.70 million for 2014.

Other expense (income) included the following items:

A foreign exchange gain of $159,000 for the year ended December 31, 2015 compared to a foreign exchange loss of $119,000 for 2014.

Revaluation expense adjustments on long term contingent consideration to ILJIN Life Science Co., Ltd. ("ILJIN") of $337,000 for the year ended December 31, 2015 compared to $848,000 for 2014.

Other expense (income) for 2014 reflected a gain on extinguishment of warrant liability of $2.19 million. There was no similar item in 2015. The 2014 comparable figure also included a gain on re-measurement of warrant liability of $646,000 and $203,000 of share issue costs allocated on a pro-rata basis to the warrant liability arising from the February 14, 2014 private placement. There were no similar items in 2015.

Gain (loss) on derivative warrant liability

The Company recorded a non-cash gain on the derivative warrant liability of $5.10 million for the year ended December 31, 2015 compared to non-cash loss of $2.77 million for 2014. These revaluations fluctuate based primarily on the market price of the Company's common shares. The derivative warrant liability is more fully discussed in the section "Critical estimates in applying the Company's accounting policies" and note 12 to the consolidated financial statements for the year end December 31, 2015.

LIQUIDITY AND CAPITAL RESOURCES

The Company is in the development stage and is devoting substantially all of its operational efforts and financial resources towards completing the AURA clinical trial activities for its late stage drug, voclosporin.

At December 31, 2015, the Company had a total of $15.75 million in cash, term deposits and a bank discount note, recorded as a short term investment, compared to $32.70 million at December 31, 2014. At December 31, 2015, the Company had net working capital of $12,917,000 compared to $30,715,000 at December 31, 2014. For the year ended December 31, 2015, the Company reported a loss of $18,607,000 (2014 - $19,421,000) and a cash outflow from operating activities of $17,766,000 (2014 - $16,908,000). As at December 31, 2015 the Company had an accumulated deficit of $257,753,000 (2014 – $239,146,000).

Management believes that its financial resources should be sufficient to finance the AURA trial, the AURION study and the supporting corporate, administration and business development activity costs until approximately the end of 2016.

As such, the Company has sufficient working capital to reach the 24 week Primary endpoint for the AURA trial which completed enrollment on January 18, 2016. The Company expects to release the 24 week primary endpoint data in the third quarter of 2016. Management considers this a key milestone event for the Company.

On October 16, 2015, the Company filed a Short Form Base Shelf Prospectus (the Shelf Prospectus). The Shelf Prospectus and corresponding shelf registration statement allows the Company to offer up to $250,000,000 of common shares, warrants and subscription receipts or any combination thereof during the 25-month period that the Shelf Prospectus is effective. The Shelf Prospectus is intended to give the Company the capability to access new capital from time to time.

In order to complete the remainder of AURA clinical trial and be able to undertake further development and commercialization of voclosporin and have the ability to continue as a going concern (see note 2 -"going concern" to the consolidated financial statements for the year ended December 31, 2015) the Company will need to raise additional funds within the next 12 months.

The outcome of such an offering is dependent on a number of factors outside of the Company's control. The nature of the biotechnology sector and current financial equity market conditions make the success of any future financing ventures uncertain. There is no assurance that any new financings will be successful.

The success of the Company and recoverability of amounts expended on research and development to date, including capitalized intangible assets, is dependent on the ability of the Company to raise additional cash, then to complete development activities, receive regulatory approval and to be able to commercialize voclosporin in the key markets and indications, whereby the Company can achieve future profitable operations. Depending on the results of the research and development programs and availability of financial resources, the Company may accelerate, terminate, cut back on certain areas of research and development,

commence new areas of research and development, or curtail certain or all of the Company's operations. There is no assurance that these initiatives will be successful.

The Company has been successful in the past in raising funds. On February 14, 2014, the Company completed a private placement with net proceeds of $48.31 million, the net proceeds of which were to be used to advance the clinical and non-clinical development of its lead drug voclosporin, as a therapy for LN, and for general corporate purposes.

The Company will need to issue additional equity or seek additional financing through other arrangements to further the development of voclosporin beyond the current AURA clinical trial. The Company's future funding requirements will depend on the future development plans for voclosporin beyond the current AURA clinical trial and potential strategic business development opportunities.

Any sale of additional equity will result in dilution to the Company's shareholders. There can be no assurance that the Company will be able to successfully obtain future financing in the amounts or terms acceptable to the Company, if at all, in order to continue the planned operational activities of the Company. If the Company is unable to obtain financing to fund the development program and its future operational activities, it may be required to delay, reduce the scope of, or eliminate the planned development activities, which could harm the Company's future financial condition and operating results. Without this additional funding, the Company will be required to review its strategic alternatives.

Sources and Uses of Cash:

	Year ended December 31, 2015 (in thousands)	Year ended December 31, 2014 (in thousands)	Increase (Decrease) (in thousands)
	$	$	$
Cash used in operating activities	(17,766)	(16,908)	(858)
Cash used in investing activities	(23)	(10,080)	10,057
Cash provided by financing activities	839	47,890	(47,051)
Effect of foreign exchange rate on cash and cash equivalents	-	(17)	17
Net increase (decrease) in cash and cash equivalents	**(16,950)**	**20,885**	**(37,835)**

At December 31, 2015, the Company had a total of $15.75 million in cash, term deposits and a bank discount note, recorded as a short term investment, compared to $32.70 million at December 31, 2014.

Net cash used in operating activities in fiscal 2015 was $17.77 million, an increase of $858,000 from cash used in operating activities of $16.91 million in fiscal 2014. Cash used in operating activities in 2015 and 2014 was composed of net loss, add-backs or adjustments not involving cash and net change in non-cash working items, which for 2014 included repayment of the drug supply loan in the amount of $1.20 million.

Cash used in investing activities in fiscal 2015 was $23,000 compared to cash used in investing activities of $10.08 million for fiscal 2014. In 2014 the Company purchased a bank discount note for $9.99 million in 2014 that was required to be reflected as a short term investment and as an investing activity.

Cash provided by financing activities for fiscal 2015 was $839,000 compared to cash provided by financing activities in fiscal 2014 of $47.89 million. The Company received $685,000 for the exercise of warrants for fiscal 2015 compared to $1.18 million for 2014. The Company also received $154,000 from the exercise of stock options for fiscal 2015 ($Nil in 2014). 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.

Use of Proceeds

On February 14, 2014, the Company completed a private placement with net proceeds of $48.31 million, the net proceeds of which were to be used to advance the clinical and non-clinical development of its lead drug voclosporin, as a therapy for LN, and for general corporate purposes. A summary of the anticipated and actual use of proceeds from February 14, 2014 to December 31, 2015 from that financing are set out below (other than working capital):

	Expected use of proceeds for period to December 31, 2015 (in thousands)	Incurred for period to December 31, 2015 (in thousands)
	$	$
Research and development of voclosporin	24,218	24,232
Other corporate purposes		
Corporate, administration and business development	9,582	8,781
Repayment of drug supply loan	1,290	1,290
Payment of financing milestone to ILJIN	1,472	1,600
	12,344	**11,671**

For the period from the date of the private placement to December 31, 2015, the actual use of proceeds were slightly less than the original estimates. This is primarily the result of actual AURA clinical trial expenditures to date being less than originally estimated due to a difference in timing of these expenditures resulting from a delay in completion of enrollment from that originally projected. No significant impact on the Company's ability to achieve its key business objectives and milestones as a result of this variation is expected.

CONTRACTUAL OBLIGATIONS

The Company has the following contractual obligations as at December 31, 2015.

	Total (in thousands)	Less than one year (in thousands)	Two to three years (in thousands)	Greater than three years (in thousands)
	$	$	$	$
Operating lease obligations [(1)]	341	298	43	-
Purchase obligations [(2)]	241	225	16	-
Accounts payable and accrued liabilities	3,333	3,333	-	-
Contingent consideration to ILJIN [(3)]	3,810	-	2,486	1,324
Total	**7,725**	**3,856**	**2,545**	**1,324**

(1) Operating lease obligations are comprised of the Company's future minimum lease payments for its premises.
(2) The Company has entered into contractual obligations for services and materials required for the AURA clinical trial and other operational activities. The purchase obligations presented represent the minimum amount to exit the company's contractual commitments.
(3) Contingent consideration to ILJIN is described in note 11 to the consolidated audited financial statements for the year ended December 31, 2015.

RELATED PARTY TRANSACTIONS

Stephen P. Robertson, a partner at Borden Ladner Gervais ("BLG"), acts as the Company's corporate secretary. The Company recorded legal fees, incurred in the normal course of business to BLG of $101,000 for the year ended December 31, 2015 compared to $28,000 for the period June 16, 2014 to December 31, 2014. Mr. Robertson became the Company's corporate secretary on June 16, 2014. The amount charged by BLG is based on standard hourly billing rates for the individuals working on the Company's account. The Company has no ongoing contractual or other commitments as a result of engaging Mr. Robertson to act as the Company's corporate secretary. Mr. Robertson receives no additional compensation for acting as the corporate secretary beyond his standard hourly billing rate.

Compensation paid to key management personnel is disclosed in note 21 to the audited consolidated financial statements for the year ended December 31, 2015.

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. 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.

A complete listing of critical accounting policies, estimates, judgments and measurement uncertainty can be found in Note 4 of the annual consolidated financial statements for the year ended December 31, 2015.

NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the year ended December 31, 2015. The standards impacted that are applicable to the Company are as follows:

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 OCI and fair value through profit or loss. 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. 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, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of goods or service and thus has the ability to direct the use and obtain the benefits from the goods or service. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Company is yet to assess the impact of IFRS 15.

In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low value assets; however, this exemption can only be applied by lessees. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application if IFRS 15 is also applied. Management is assessing the potential impact the adoption of IFRS 16 will have on the Company's combined financial statements.

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:

Since its inception, the Company has experienced recurring operating losses and negative cash flows, and expects to continue to generate operating losses and consume significant cash resources for the foreseeable future.

Management believes that the Company has sufficient working capital to reach the 24 week Primary endpoint for its AURA trial which completed enrollment on January 18, 2016. The Company expects to release the 24 week primary endpoint data in the third quarter of 2016. However, in order to complete the 48 week AURA trial and be able to undertake further development and commercialization of voclosporin, the Company will need to raise additional funds within the next 12 months.

These conditions raise substantial doubt about its ability to continue as a going concern without raising this additional required financing.

As a result, the Company's consolidated financial statements for the year ended December 31, 2015, contain a going concern note (note 2) with respect to this uncertainty. Substantial doubt about the Company's ability to continue as a going concern may materially and adversely affect the price per share of its common stock, and it may be more difficult for the Company to obtain financing. The going concern note in the consolidated financial statements may also adversely affect its relationships with current and future collaborators, contract manufacturers and investors, who may grow concerned about its ability to meet our ongoing financial obligations. If potential collaborators decline to do business with the Company or potential investors decline to participate in any future financings due to such concerns, the Company's ability to increase its cash position may be limited. The Company has prepared its financial statements on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company's consolidated financial statements for the year ended December 31, 2015 do not include any adjustment to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Other risk factors also include the following:

- successful completion of its clinical program in LN, including the AURA clinical trial and AURION study currently underway;
- Timely completion of the AURA clinical trial and AURION study;
- 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 arrangements 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 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 more 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 its ongoing AURA clinical trial and other corporate, administration and business development activities until approximately the end of 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.

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. As described in note 2 to the consolidated financial statements for the year ended December 31, 2015, the Company is dependent on raising additional financing to sustain operations and complete the clinical trial.

All of the Company's financial liabilities are due within one year except for the contingent consideration to ILJIN and the derivative warrant liability.

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 States 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.

As the Company's functional currency is the US dollar, the Company has foreign exchange exposure to the CDN dollar.

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

	December 31, 2015 $	December 31, 2014 $
Cash and cash equivalents	116	138
Accounts receivable	39	60
Accounts payable and accrued liabilities	(803)	(860)
Net exposure	(648)	(662)

	Reporting date rate	
	December 31, 2015 $	December 31, 2014 $
$CDN - $US	0.723	0.862

Based on the Company's foreign currency exposures noted above, varying the foreign exchange rates to reflect a ten percent strengthening of the US dollar would have decreased the net loss by $65,000 as at December 31, 2015 assuming that all other variables remained constant. An assumed 10 percent weakening of the US dollar would have had an equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

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 has entered into indemnification agreements with its officers and directors. The maximum potential amount of future payments required under these indemnification agreements is unlimited. However, the Company does maintain liability insurance to limit the exposure of the Company.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management's Annual Report on Internal Control over Financial Reporting

The Company's management, including the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, and has designed such internal control over financial reporting (ICFR) to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with IFRS.

Management does not expect that the Company's internal controls and procedures over financial reporting will prevent all error and all fraud. A control system provides only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitation in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgements in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons by collusion of two or more people or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving the Company's stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error fraud may occur and not be detected. 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 or procedures may deteriorate.

Management evaluated the effectiveness of the Company's ICFR as of December 31, 2015 based on the framework set forth in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's ICFR were effective as of December 31, 2015.

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 our 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, therefore, management is 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, 2015, 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 16, 2016, the following class of shares and equity securities potentially convertible into common shares were outstanding:

Common shares	32,287,000
Convertible equity securities	
Derivative liability warrants	4,548,000
Other warrants	1,368,000
Stock options	2,713,000

SUPPLEMENTAL INFORMATION

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

	2015	2014	2013
Statement of Operations	**$**	**$**	**$**
Revenues	235	278	969
Expenses, net	(23,943)	(16,925)	(7,542)
Gain (loss) on derivative warrant liability	5,101	(2,774)	-
Income tax recovery	-	-	3,911
Net loss for the year	(18,607)	(19,421)	(2,662)
Net loss per share	(0.58)	(0.67)	(0.42)
Weighted average number of common shares outstanding	32,154	29,158	6,344
Balance sheets			
Working capital (deficiency)	12,917	30,715	(3,954)
Total assets	33,567	52,378	23,167
Non-current contingent consideration	3,810	3,473	2,690
Shareholder's equity	19,963	33,871	13,313
Common shares outstanding	32,287	31,818	12,375

Quarterly Information

(expressed in thousands except per share data)

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

2015	Q1	Q2	Q3	Q4	Annual
	$	$	$	$	$
Revenues	62	59	57	57	235
Expenses					
Research and development	3,330	4,330	4,670	3,652	15,982
Corporate, administration and business development	1,905	1,414	1,380	1,564	6,263
Amortization and impairment of tangible and intangible assets	398	363	434	363	1,558
Contract services	5	4	1	2	12
Other expense (income)	98	83	(55)	2	128
Gain (loss) on derivative warrant liability	(2,927)	5,402	1,163	1,463	5,101
Net loss for the period	(8,601)	(733)	(5,210)	(4,063)	(18,607)
Per common share ($)					
Net loss per common share – basic and diluted	(0.27)	(0.02)	(0.16)	(0.13)	(0.58)
Common Shares outstanding	32,062	32,267	32,287	32,287	32,287
Weighted average number of common shares outstanding	31,859	32,237	32,278	32,287	32,154
2014	**Q1**	**Q2**	**Q3**	**Q4**	**Annual**
Revenues	67	71	72	68	278
Expenses					
Research and development	1,040	2,547	2,433	3,092	9,112
Corporate, administration and business development	2,373	1,713	1,405	1,399	6,890
Restructuring and acquisition	569	403	60	36	1,068
Amortization and impairment of tangible and intangible assets	369	369	373	410	1,521
Contract services	8	10	11	8	37
Other expense (income)	899	(954)	(1,690)	42	(1,703)
Gain(loss) on derivative warrant liability	416	(7,017)	5,268	(1,441)	(2,774)
Net income (loss) for the period	(4,775)	(11,034)	2,748	(6,360)	(19,421)
Per common share ($)					
Net income (loss) per common share					
Basic	(0.22)	(0.35)	0.09	(0.20)	(0.67)
Diluted	(0.22)	(0.35)	0.08	(0.20)	(0.67)
Common Shares outstanding	31,354	31,369	31,577	31,818	31,818
Weighted average number of common shares outstanding					
Basic	21,848	31,359	31,516	31,774	29,158
Diluted	21,848	31,359	33,249	31,774	29,158

Summary of Quarterly Results

The primary factors affecting the magnitude of the Company's earnings (losses) in the various quarters are noted below and include the timing of research and development costs associated with the clinical development programs, timing and amount of stock compensation expense, fluctuations in the non-cash gain (loss) on derivative warrant liability resulting from required quarterly fair value adjustments and other specific one-time items as noted below.

The general increase in research and development costs for the quarters from March 31, 2014 to December 31, 2015, reflect costs incurred for the ongoing AURA clinical trial.

The Company records non-cash gains (losses) each quarter resulting from fair value revaluation of the derivative warrant liability. These revaluations fluctuates based primarily on the market price of the Company's common shares

Corporate, administration and business development costs included non-cash stock-based compensation expense of $897,000 for the three months ended March 31, 2015.

Other expense (income) reflected a gain on extinguishment of warrant liability of $1.75 million for the three months ended September 30, 2014. Other expense (income) reflected a gain on extinguishment of warrant liability of $438,000 a gain on re-measurement of warrant liability of $646,000 for the three months ended June 30, 2014. Corporate, administration and business development costs reflected non-cash stock-based compensation expense of $1.04 million for the three months ended March 31, 2014.

Fourth Quarter Analysis (See *Quarterly Information* above for the fourth quarter comparative information detail).

The Company recorded a consolidated net loss of $4.06 million or $0.13 per common share for the fourth quarter ended December 31, 2015, compared to a consolidated net loss of $6.36 million or $0.20 per common share for the fourth quarter ended December 31, 2014.

The decrease in the consolidated net loss of $2.30 million was primarily attributable to recording a fair value adjustment gain on derivative warrant liability of $1.46 million in the fourth quarter ended December 31, 2015 versus a loss of $1.44 million in the comparable period in 2014.

The decrease was partially offset by higher research and development expenses incurred in the current quarter of $560,000. Research and development expenses amounted to $3.65 million for the fourth quarter ended December 31, 2015 compared to $3.09 million for the corresponding quarter the previous year. The increase was primarily the result of higher drug supply and distribution costs. These costs increased to $540,000 in the fourth quarter ended December 31, 2015 compared to $97,000 for the comparable period in 2014 as the number of patients on the drug reached maximum levels in the fourth quarter ended December 31, 2015.

Corporate, administration and business expenses were $1.56 million for the fourth quarter ended December 31, 2015 compared to $1.40 million for the corresponding period in 2014. The increase in these expenses in 2015 was primarily the result of an increase in non-cash stock compensation expense of $232,000 in the fourth quarter of 2015 compared to the same period in 2014.

2016 OUTLOOK

Aurinia Pharmaceuticals Inc. is a public, clinical-stage pharmaceutical company operating in the field of nephrology and autoimmunity, and is specifically focused on the development of its lead compound, voclosporin, to treat patients afflicted with LN.

In January 2016, enrollment in the randomized, placebo controlled trial, known as AURA, was completed, with primary data un-blinding and disclosure expected in the third quarter of 2016. Given significant unmet medical need in this condition, measurably high degrees of longer term morbidity and mortality, no approved medication outside of Japan, and a very high pharmaco-economic burden, positive results for this flat-dosed, oral solid medication will be of significant clinical and commercial value.

In February, 2016, the company disclosed the first ever, clinical data in patients treated with voclosporin, as a component of multi-target therapy, and diagnosed with LN. While this data was derived from an open-labelled trial with a smaller patient base (7), the uniform positive results seen in each patient presented is considered a confirmation of the clinical thesis.

Further, in March, 2016, Aurinia announced that the FDA had granted Fast Track designation for voclosporin, for the treatment of LN. The Fast Track program was created by the FDA to facilitate the development and expedite the review of new drugs that are intended to treat serious or life-threatening conditions, and that demonstrate the potential to address significant unmet medical needs. Among other benefits, the Fast Track designation allows the Company to submit parts of the New Drug Application (NDA) on a rolling basis for review as data becomes available.

Significant work and opportunity will remain after the AURA primary data disclosure in the third quarter of 2016 and may include the planning, execution, and conclusion of a Phase 3 program, on-going interaction with major regulatory bodies, and the raise of additional capital necessary to complete the clinical development of voclosporin. Further, other strategic options may be considered including, but not limited to, in-licensing complementary assets or technology platforms and strategic partnerships. Much is dependent on the capital markets and the availability of funds at acceptable terms.

The Company continues to be optimistic that the clinical and investment theses of treating LN patients with voclosporin will be realized, which would provide a measurable improvement in the standard of care for these deserving patients while unlocking shareholder value.