

**Interim Condensed
Consolidated Financial Statements** *(unaudited)*

Aurinia Pharmaceuticals Inc.

Q3 | 16

**Third Quarter
Ended September 30, 2016**


Aurinia

Aurinia Pharmaceuticals Inc.

Interim Condensed Consolidated Financial Statements
(Unaudited)

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

Third quarter ended September 30, 2016

Aurinia Pharmaceuticals Inc.

Interim Condensed Consolidated Statements of Financial Position (Unaudited)

(Expressed in thousands of U.S. dollars)

	September 30, 2016 \$	December 31, 2015 \$
Assets		
Current assets		
Cash and cash equivalents	12,333	5,756
Short term investment (note 4)	3,047	9,997
Accounts receivable	98	47
Prepaid expenses and deposits	1,845	734
	<u>17,323</u>	<u>16,534</u>
Property and equipment	26	36
Acquired intellectual property and other intangible assets	<u>15,901</u>	<u>16,997</u>
Total assets	<u>33,250</u>	<u>33,567</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,932	3,333
Current portion of deferred revenue	118	168
Provision for restructuring costs	-	116
Contingent consideration (note 5)	1,716	-
	<u>4,766</u>	<u>3,617</u>
Deferred revenue	590	678
Contingent consideration (note 5)	3,366	3,810
Derivative warrant liability (note 6)	<u>4,425</u>	<u>5,499</u>
	<u>13,147</u>	<u>13,604</u>
Shareholders' equity		
Share capital		
Common shares (note 7)	275,805	261,645
Warrants (note 7)	1,086	1,297
Contributed surplus	16,732	15,579
Accumulated other comprehensive loss	(805)	(805)
Deficit	<u>(272,715)</u>	<u>(257,753)</u>
Total shareholders' equity	<u>20,103</u>	<u>19,963</u>
Total liabilities and shareholders' equity	<u>33,250</u>	<u>33,567</u>
Going concern (note 2)		
Subsequent events (note 13)		

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

Aurinia Pharmaceuticals Inc.

Interim Condensed Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

For the three and nine month periods ended September 30, 2016 and 2015

(Expressed in thousands of U.S. dollars, except per share data)

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	\$	\$	\$	\$
Revenue				
Licensing revenue	29	29	88	88
Research and development revenue	-	25	50	75
Contract services	2	3	5	15
	<u>31</u>	<u>57</u>	<u>143</u>	<u>178</u>
Expenses				
Research and development	3,342	4,670	9,072	12,330
Corporate, administration and business development	1,716	1,380	4,743	4,699
Amortization of acquired intellectual property and other intangible assets	357	429	1,099	1,179
Amortization of property and equipment	5	5	15	16
Contract services	1	1	3	10
Other expense (income) (note 8)	1,078	(55)	1,247	126
	<u>6,499</u>	<u>6,430</u>	<u>16,179</u>	<u>18,360</u>
Net gain (loss) before gain on derivative warrant liability	(6,468)	(6,373)	(16,036)	(18,182)
Gain (loss) on derivative warrant liability (note 6)	(951)	1,163	1,074	3,638
Net loss and comprehensive loss for the period	<u>(7,419)</u>	<u>(5,210)</u>	<u>(14,962)</u>	<u>(14,544)</u>
Loss per share (note 9)				
Basic and diluted net loss per common share	<u>(0.21)</u>	<u>(0.16)</u>	<u>(0.44)</u>	<u>(0.45)</u>

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

Aurinia Pharmaceuticals Inc.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

For the three and nine month periods ended September 30, 2016 and 2015

(Expressed in thousands of U.S. dollars)

	Common Shares \$	Warrants \$	Contributed surplus \$	Accumulated Other Comprehensive Loss \$	Deficit \$	Shareholders' Equity \$
Balance – January 1, 2016	261,645	1,297	15,579	(805)	(257,753)	19,963
Issue of common shares (note 7)	6,142	-	-	-	-	6,142
Share issue costs	(407)	-	-	-	-	(407)
Issue of units (note 7)	6,260	820	-	-	-	7,080
Share issue costs	(389)	(51)	-	-	-	(440)
Exercise of warrants (note 7)	2,498	(825)	-	-	-	1,673
Expiry of warrants (note 7)	-	(155)	155	-	-	-
Exercise of stock options (note 7)	56	-	(29)	-	-	27
Stock-based compensation	-	-	1,027	-	-	1,027
Net loss for the period	-	-	-	-	(14,962)	(14,962)
Balance – September 30, 2016	275,805	1,086	16,732	(805)	(272,715)	20,103
Balance – January 1, 2015	259,712	1,804	12,306	(805)	(239,146)	33,871
Exercise of warrants (note 7)	1,020	(335)	-	-	-	685
Exercise of cashless warrants	636	-	-	-	-	636
Expiry of warrants	-	(172)	172	-	-	-
Exercise of stock options (note 7)	277	-	(123)	-	-	154
Stock-based compensation	-	-	2,736	-	-	2,736
Net loss for the period	-	-	-	-	(14,544)	(14,544)
Balance – September 30, 2015	261,645	1,297	15,091	(805)	(253,690)	23,538

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Aurinia Pharmaceuticals Inc.

Interim Condensed Consolidated Statements of Cash Flow

(Unaudited)

For the three and nine month periods ended September, 2016 and 2015

(Expressed in thousands of U.S. dollars)

	Three months ended		Nine months ended	
	September 30, 2016 \$	September 30, 2015 \$	September 30, 2016 \$	September 30, 2015 \$
Cash flow provided by (used in)				
Operating activities				
Net loss for the period	(7,419)	(5,210)	(14,962)	(14,544)
Adjustments for:				
Amortization of deferred revenue	(29)	(54)	(138)	(163)
Amortization of property and equipment	5	5	15	16
Amortization of acquired intellectual property and other intangible assets	357	429	1,099	1,179
Change in valuation of short-term investment	-	(7)	-	(18)
Revaluation of contingent consideration	1,146	25	1,272	298
Loss (gain) on derivative warrant liability	951	(1,163)	(1,074)	(3,638)
Stock-based compensation	548	679	1,027	2,736
Gain on sale of equipment	(13)	-	(13)	-
Change in provision for restructuring costs	(38)	(39)	(116)	(116)
Net change in other operating assets and liabilities (note 11)	304	137	(1,563)	1,322
Net cash used in operating activities	(4,188)	(5,198)	(14,453)	(12,928)
Investing activities				
Purchase of short-term investment	(6,046)	(9,984)	(18,091)	(19,983)
Proceeds on maturity of short-term investment	5,998	10,010	25,041	20,010
Proceeds on sale of equipment	13	-	13	-
Purchase of equipment	(4)	-	(5)	(6)
Capitalized patent costs	-	(18)	(3)	(44)
Net cash generated from (used in) investing activities	(39)	8	6,955	(23)
Financing activities				
Proceeds from issuance of common shares	6,142	-	6,142	-
Share issue costs related to issuance of common shares	(407)	-	(407)	-
Proceeds from issuance of units	-	-	7,080	-
Share issue costs related to issuance of units	-	-	(440)	-
Proceeds from exercise of warrants	1,673	-	1,673	685
Proceeds from exercise of stock options	27	56	27	154
Net cash generated from financing activities	7,435	56	14,075	839
Increase (decrease) in cash and cash equivalents	3,208	(5,134)	6,577	(12,112)
Cash and cash equivalents – beginning of period	9,125	15,728	5,756	22,706
Cash and cash equivalents – end of period	12,333	10,594	12,333	10,594

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

Aurinia Pharmaceuticals Inc.

Notes to Interim Condensed Consolidated Statements

(Unaudited)

For the three and nine month periods ended September 30, 2016 and 2015

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

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

These interim condensed 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 interim condensed 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 September 30, 2016, the Company had net working capital, excluding the current portion of contingent consideration, of \$14,273,000 compared to \$12,917,000 as at December 31, 2015. For the three month period ended September 30, 2016, the Company reported a loss of \$7,419,000 (September 30, 2015 – \$5,210,000) and a cash outflow from operating activities of \$4,188,000 (September 30, 2015 – \$5,198,000). As at September 30, 2016, the Company had an accumulated deficit of \$272,715,000 (December 31, 2015 – \$257,753,000).

On July 22, 2016 the Company entered into a Controlled Equity Offering Sales Agreement with Cantor Fitzgerald & Co. pursuant to which the Company could from, time to time, sell common shares through at-the-market (“ATM”) offerings, with Cantor Fitzgerald acting as sales agent. The Company received net proceeds of \$5,735,000 in the third quarter ended September 30, 2016.

The Company also received proceeds of \$1,673,000 from the exercise of warrants in the third quarter of 2016.

Previously, on June 22, 2016 the Company had completed a private placement of 3 million units of the Company at \$2.36 per unit for net proceeds of \$6,640,000.

On October 16, 2015, the Company had 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 Base shelf prospectus was utilized for the ATM facility, and as result, the remaining amount currently available under the Base Shelf Prospectus is \$242,000,000.

The proceeds received from the ATM, warrant exercises and private placement have provided the Company with liquidity in the short-term and sufficient funding to complete the Phase 2b LN trial and continue the Phase 3 LN planning process. However, the Company will need to undertake substantial additional equity offerings within the next 12 months in order to continue the development and commercialization of voclosporin for LN, including the funding of the active patient portion of the Phase 3 program.

The outcome of these offerings 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 the ATM financing or 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.

Aurinia Pharmaceuticals Inc.

Notes to Interim Condensed Consolidated Statements

(Unaudited)

For the three and nine month periods ended September 30, 2016 and 2015

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

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 interim condensed 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 presentation

These interim condensed consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as applicable to interim financial reports including IAS 34, Interim Financial Reporting, and should be read in conjunction with the annual financial statements of the Company for the year ended December 31, 2015 which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB").

These interim condensed consolidated financial statements were authorized for issue by the audit committee of the Board of Directors on November 3, 2016.

4. Short term investment

The short-term investment, recorded initially at fair value and subsequently at amortized cost using the effective interest method, is a 61 day HSBC Bank US denominated discount note due November 8, 2016, with an amortized cost of \$3,047,000 and an initial cost of \$3,046,000. (December 31, 2015 - 6 month HSBC US denominated discount note due February 10, 2016 with an amortized cost of \$9,997,000 and an initial cost of \$9,984,000). The note has an effective interest rate of 0.428%. (December 31, 2015 - 0.311%).

5. Contingent consideration

The outstanding fair value of contingent consideration payable to ILJIN Life Science Co., Ltd. ("ILJIN") resulting from the Arrangement Agreement completed on September 20, 2013 between the Company, Aurinia Pharma Corp. and ILJIN consists of potential 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.

The fair value of this portion of contingent consideration at September 30, 2016 was estimated to be \$5,082,000 (December 31, 2015 - \$3,810,000) and was determined by applying the income approach. The fair value estimates at September 30, 2016 were based on a discount rate of 10% which has remained unchanged since December 31, 2015.

The Company achieved a positive 24 week primary endpoint result in the Phase 2b clinical LN trial in the third quarter of 2016. As such while no milestone was attached to this positive primary endpoint result, it was an event that triggered an adjustment of the probability of success of the milestones such that the probability of success factors were increased for certain of the milestones. As a result of this adjustment the probability factors, the probability adjusted payment ranges were increased to 35% to 90% as at September 30, 2016 from 35% to 70% as at June 30, 2016. The current portion of the contingent consideration liability of \$1,716,000 represents the first milestone that is expected to be achieved within the year. The change in probability factors for the milestones resulted in revaluation of contingent consideration expense of \$1,146,000 for the three months ended September 30, 2016 compared to \$25,000 for the comparable period in 2015.

This is a level 3 recurring fair value measurement.

If the probability for success were to increase by the factor of 10% for each milestone this would increase the obligation by approximately \$775,000 at September 30, 2016. If the probability for success were to decrease by the factor of 10% for each milestone this would decrease the obligation by approximately \$775,000.

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Notes to Interim Condensed Consolidated Statements

(Unaudited)

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

6. Derivative warrant liability

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. No warrants were exercised in the nine month period ended September 30, 2016. In the first quarter ended March 31, 2015, a holder of these warrants elected this option and the Company issued 66,000 common shares upon 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.

At September 30, 2016 the Company estimated the fair value of the derivative warrant liability at \$4,425,000 (December 31, 2015 - \$5,499,000) which resulted in a loss on revaluation of derivative warrant liability for the three months ended September 30, 2016 of \$951,000 (September 30, 2015 - gain on revaluation of derivative warrant liability of \$1,163,000).

The Company considers the 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 upon 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 September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
Annualized volatility	57%	84%
Risk-free interest rate	0.80%	1.19%
Expected life of warrants in years	2.37	3.13
Dividend rate	0.0%	0.0%
Market price	\$3.01	\$2.47
Fair value per Warrant	\$0.97	\$1.21

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 \$913,000 at September 30, 2016. If the market price were to decrease by a factor of 10% this would decrease the obligation by approximately \$856,000. If the volatility were to increase by 10%, this would increase the obligation by approximately \$441,000. If the volatility were to decrease by 10%, this would decrease the obligation by approximately \$449,000 at September 30, 2016.

The following table presents the changes in the derivative warrant liability categorized as Level 3:

	# of Warrants (in thousands)	\$
Balance at January 1, 2016	4,548	5,499
Loss on revaluation of derivative warrant liability	-	(664)
Balance at March 31, 2016	4,548	4,835
Gain on revaluation of derivative warrant liability	-	(1,361)
Balance at June 30, 2016	4,548	3,474
Loss on revaluation of derivative warrant liability	-	951
Balance at September 30, 2016	4,548	4,425
Balance at January 1, 2015	4,730	11,235
Conversion to equity (common shares) upon exercise of warrants	(182)	(636)

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Loss on revaluation of derivative warrant liability	-	2,927
Balance at March 31, 2015	4,548	13,526
Gain on revaluation of derivative warrant liability	-	(5,402)
Balance at June 30, 2015	4,548	8,124
Gain on revaluation of derivative warrant liability		(1,163)
Balance at September 30, 2015	4,548	6,961

7. Share Capital

(a) Common shares

Authorized

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

Issued	Common Shares	
	# (in thousands)	\$
Balance at January 1, 2016	32,287	261,645
Issued pursuant to At the Market Facility	2,618	5,735
Issued pursuant to June 22, 2016 private placement	3,000	5,871
Issued pursuant to exercise of warrants	879	2,498
Issued pursuant to exercise of stock options	10	56
Balance at September 30, 2016	38,794	275,805
Balance at January 1, 2015	31,818	259,712
Issued pursuant to exercise of warrants	348	1,020
Issued pursuant to exercise of derivative liability warrants	66	636
Issued pursuant to exercise of stock options	55	277
Balance at September 30, 2015	32,287	261,645

At-the-Market Facility

On July 22, 2016 the Company entered into a Controlled Equity Offering Sales Agreement with Cantor Fitzgerald & Co. (“Cantor Fitzgerald”) pursuant to which the Company may from time to time sell common shares, through at-the-market (“ATM”) offerings with Cantor Fitzgerald acting as sales agent, such common shares as would have an aggregate offer price of up to US\$10,000,000. The Company intends to use the net proceeds from the ATM to continue development of its lead drug candidate, voclosporin, as a therapy for LN, and for general corporate purposes.

Pursuant to this agreement the Company issued 2,618,000 common shares, receiving proceeds of \$5,735,000, net of share issue costs of \$407,000 for the three months ended September 30, 2016. Share issue costs of \$407,000 included a 3% commission of \$184,000 paid to the agent and professional fees and filing fees of \$223,000 directly related to the ATM. See also note 13-subsequent events.

Private placement

On June 22, 2016, the Company completed a private placement for net proceeds of \$6,640,000. The Company intends to use the net proceeds from the private placement to continue development of its lead drug candidate, voclosporin, as a therapy for LN, and for general corporate purposes.

Aurinia Pharmaceuticals Inc.

Notes to Interim Condensed Consolidated Statements

(Unaudited)

For the three and nine month periods ended September 30, 2016 and 2015

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Under the terms of the private placement, the Company issued 3,000,000 units (the “Units”) at a price of \$2.36 per Unit. Each Unit consisted of one common share and 0.35 of a common share purchase warrant (a “Warrant”), exercisable for a period of two years from the date of issuance at an exercise price of \$2.77.

Share issue costs of \$440,000 included a cash commission of \$250,000 paid to the agent and legal and filing fees of \$190,000 directly related to the private placement.

(b) Warrants

Issued	Warrants	
	# (in thousands)	\$
Balance at January 1, 2016	1,368	1,297
Issued pursuant to June 22, 2016 private placement	1,050	769
Warrants exercised	(879)	(825)
Warrants expired	(160)	(155)
Balance September 30, 2016	1,379	1,086
Balance at January 1, 2015	1,724	1,804
Warrants exercised	(348)	(335)
Warrants expired	(8)	(172)
Balance September 30, 2015	1,368	1,297

On June 22, 2016, pursuant to the private placement noted above, the Company issued 1,050,000 warrants to purchase common shares at a price of \$2.77 per common share. The warrants have a term of two years from the date of issuance. The fair value attributed to the warrants using the Black-Scholes option pricing model was \$769,000, net of share issue costs of \$51,000.

The following assumptions were used to estimate the fair value of the warrants issued during the three and nine month period ended September 30, 2016:

	Three months ended September 30, 2016	Nine months ended September 30, 2016
Expected volatility	-	50%
Risk-free interest rate	-	0.75%
Expected life of warrants in years	-	2
Dividend rate	-	0.0%
Exercise price	-	\$2.77
Market price on date of issue	-	\$2.36
Fair value per warrant	-	\$0.78

Aurinia Pharmaceuticals Inc.

Notes to Interim Condensed Consolidated Statements

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For the three and nine month periods ended September 30, 2016 and 2015

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

Warrants outstanding at September 30, 2016

Expiry date:	# (in thousands)	Weighted average exercise price \$
Exercisable in CDN\$		
June 26, 2018 (CDN\$2.25 and CDN\$2.50)	315	1.90
December 31, 2018 (CDN\$2.00)	14	1.52
	329	1.89
Exercisable in US\$		
February 14, 2019 (note 6)	4,548	3.22
June 22, 2018	1,050	2.77
	5,927	3.07

(c) Stock options and compensation expense

A summary of the outstanding stock options as of September 30, 2016 and 2015 and changes during the nine month periods ended on those dates is presented below:

	September 30, 2016		September 30, 2015	
	#	Weighted average exercise price In CDN\$	#	Weighted average exercise price In CDN\$
Outstanding – Beginning of period	2,713	4.00	1,376	3.68
Granted	1,660	3.46	1,391	4.33
Expired	(70)	7.00	-	-
Forfeited	(195)	3.94	(17)	4.72
Cancelled	-	-	(25)	4.25
Exercised	(10)	3.50	(55)	3.50
	4,098	3.73	2,670	4.01
Options exercisable – End of period	2,715	3.90	1,694	3.92

On June 8, 2016 the Shareholders of the Company approved the amendment to the Stock Option Plans to increase the maximum number of Common Shares reserved for issuance under the Stock Option Plan from 10% to 12.5% of the outstanding Common Shares of the Company at the time of granting.

Therefore, the maximum number of Common Shares issuable under the Stock Option Plan is equal to 12.5% of the issued and outstanding Common Shares at the time the Common Shares are reserved for issuance. As at September 30, 2016 there were 38,794,000 Common Shares of the Company issued and outstanding, resulting in a maximum of 4,849,250 options available for issuance under the Stock Option Plan. An aggregate total of 3,898,000 options are presently outstanding in the Stock Option Plan, representing 10.0% of the issued and outstanding Common Shares of the Company.

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

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The Company granted 60,000 stock options to directors of the Company on March 23, 2016 at a price of \$3.00 (CDN\$3.96) per common share. On March 30, 2016 the Company granted 220,000 stock options to officers and employees of the Company at a price of \$3.02 (CDN\$3.91) per common share. On March 31, 2016 the Company granted 40,000 stock options to the Chief Executive Officer, at the time, of the Company at a price \$2.90 (CDN\$3.76) per common share. 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 (CDN\$4.25) per common share. The options granted in 2015 and 2016, mentioned above, all vest in equal amounts over 12 months and are exercisable for a term of five years.

On June 17, 2016 the Company granted 1,000,000 stock options to the Chief Executive Officer of the Company at a price of \$2.48 (CDN\$3.20) per common share. These options vest in equal amounts over 36 months and are exercisable for a term of five years.

On July 12, 2016, the Company granted 100,000 options to the newly hired employee at a price of \$3.05 (CDN \$4.00) per common share. On July 21, 2016 the Company granted 40,000 options to an employee at a price \$3.03 (CDN \$3.95) per common share. Both of these option grants vest in equal amounts over 36 months and are exercisable for a term of five years.

In addition, on May 2, 2016 the Company granted 200,000 inducement stock options to a new employee pursuant to Section 613 (g) of the TSX Company Manual at a price of \$2.92 (CDN \$3.66). These options vest in equal amounts over 36 months and are exercisable for a term of five years. These options are recorded outside of the Company's stock option plan.

The Company recognized stock-based compensation expense of \$548,000 and \$1,027,000 for the three and nine month periods ended September 30, 2016 respectively (2015 – \$679,000 and \$2,736,000) with corresponding credits to contributed surplus. For the three and nine months ended September 30, 2016, stock compensation expense has been allocated to research and development expense in the amount of \$79,000 and \$288,000 respectively (2015 – \$140,000 and \$773,000) and corporate administration expense in the amount of \$469,000 and \$739,000 respectively (2015 – \$539,000 and \$1,963,000).

The Company used the Black-Scholes option pricing model to estimate the fair value of the options granted to employees, officers and directors.

The following weighted average assumptions were used to estimate the fair value of the options granted during the nine month periods ended September 30, 2016 and 2015:

	September 30, 2016	September 30, 2015
Expected volatility	74%	85%
Risk-free interest rate	.59%	.93%
Expected life of options in years	4.0	3.9
Estimated forfeiture rate	16.9%	11.1%
Dividend rate	0.0%	0.0%
Exercise price	\$2.68	\$3.56
Market price on date of grant	\$2.68	\$3.56
Fair value per common share option	\$1.46	\$2.16

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

Determining the fair value of stock options on grant date, requires judgment related to the choice of a pricing model, the estimation of stock price volatility and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's reported operating results, liabilities or other components of shareholders' equity. The key assumption used by management is the stock price volatility. If the market price or volatility factors were to increase or decrease by a change of 10% there would be no significant impact.

Aurinia Pharmaceuticals Inc.

Notes to Interim Condensed Consolidated Statements

(Unaudited)

For the three and nine month periods ended September 30, 2016 and 2015

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

8. Other expense (income)

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	\$	\$	\$	\$
Other expense (income) net composed of:				
Finance income				
Interest income	(7)	(11)	(20)	(40)
Other				
Revaluation adjustment on contingent consideration (note 5)	1,146	25	1,272	298
Foreign exchange loss (gain) and other	(48)	(69)	8	(132)
Gain on Sale of Equipment	(13)	-	(13)	-
	1,085	(44)	1,247	166
	1,078	(55)	1,250	126

9. 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 period. In determining diluted net loss per common share, the weighted average number of common shares outstanding is adjusted for stock options and warrants eligible for exercise where the average market price of common shares for the three and six months ended September 30, 2016 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 outstanding stock options and warrants were not included in the computation of the diluted loss per common share for the three and nine months ended September 30, 2016 and September 30, 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:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	\$	\$	\$	\$
Net loss for the period	(7,419)	(5,210)	(14,962)	(14,544)
	#	#	#	#
	In thousands	In thousands	In thousands	In thousands
Weighted average common shares outstanding	36,079	32,278	33,648	31,970
	\$	\$	\$	\$
Loss per common share (expressed in \$ per share)	(0.21)	(0.16)	(0.44)	(0.45)

Aurinia Pharmaceuticals Inc.

Notes to Interim Condensed Consolidated Statements

(Unaudited)

For the three and nine month periods ended September 30, 2016 and 2015

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

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

	September 30, 2016 # In thousands	September 30, 2015 # In thousands
Stock options	4,098	2,670
Warrants (derivative liability)	4,548	4,548
Warrants (equity)	1,379	1,368
	<u>10,025</u>	<u>8,586</u>

10. Segment disclosures

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

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

Geographic information

	Three months ended		Nine months ended	
	September 30, 2016 \$	September 30, 2015 \$	September 30, 2016 \$	September 30, 2015 \$
Revenue				
Canada	2	28	55	90
China	29	29	88	88
	<u>31</u>	<u>57</u>	<u>143</u>	<u>178</u>

11. Supplementary cash flow information

Net change in other operating assets and liabilities:

	Three months ended		Nine months ended	
	September 30, 2016 \$	September 30, 2015 \$	September 30, 2016 \$	September 30, 2015 \$
Accounts receivable	(49)	30	(51)	37
Prepaid expenses and deposits	(117)	(159)	(1,111)	132
Accounts payable and accrued liabilities	470	266	(401)	1,153
	<u>304</u>	<u>137</u>	<u>(1,563)</u>	<u>1,322</u>

Aurinia Pharmaceuticals Inc.

Notes to Interim Condensed Consolidated Statements

(Unaudited)

For the three and nine month periods ended September 30, 2016 and 2015

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

12. Foreign exchange risk

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

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

	September 30, 2016 \$	September 30, 2015 \$
Cash and cash equivalents	696	102
Accounts receivable	97	41
Accounts payable and accrued liabilities	(654)	(515)
Net exposure	139	(372)

	Reporting Date Rate September 30, 2016 \$	September 30, 2015 \$
CDN\$ - US\$	0.762	0.749

Based on the Company's foreign currency exposures noted above, varying the foreign exchange rates to reflect a ten percent strengthening of the U.S. dollar would have decreased the net loss by \$14,000 assuming that all other variables remained constant. An assumed 10 percent weakening of the U.S. dollar would have had an equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

13. Subsequent events

(a) Exercise of cashless warrants

Subsequent to the quarter end, a non-affiliated third party holder of February 14, 2014 warrants exercised the cashless exercise option and received 224,000 common shares of the Company upon the exercise of 619,000 warrants.

(b) ATM

Subsequent to the end of the third quarter, the Company issued 688,000 common shares, receiving net proceeds of \$1,803,000 from the ATM facility.

Sales pursuant to this ATM were concluded subsequent to the end of the third quarter and in total the Company received gross proceeds in the aggregate of \$8,000,000, which was the maximum allowable pursuant to the limit imposed under the rules of the Toronto Stock Exchange. See note 7(a) for further discussion of the ATM.

Management's Discussion and Analysis

Aurinia Pharmaceuticals Inc.

Q3 | 16

Third Quarter
Ended September 30, 2016


Aurinia

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2016

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") provides information on the activities of Aurinia Pharmaceuticals Inc. ("Aurinia" or the "Company") and its subsidiaries on a consolidated basis and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and accompanying notes for the third quarter ended September 30, 2016 and the Company's annual MD&A and audited financial statements for the year ended December 31, 2015. All amounts are expressed in United States (U.S.) dollars unless otherwise stated. Dollar amounts in tabular columns are expressed in thousands of U.S. dollars. This document is current in all material respects as of November 3, 2016.

The financial information contained in this MD&A and in the Company's unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards or IFRS as issued by the International Accounting Standards Board or IASB applicable to the preparation of interim financial statements including International Accounting Standards 34: *Interim Financial Reporting*. The unaudited interim condensed consolidated financial statements and MD&A have been reviewed and approved by the Company's Audit Committee on November 3, 2016.

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 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. In this MD&A, 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 48 week results of the Company's voclosporin Phase 2b lupus nephritis ("LN") clinical trial (Aurinia Urinary protein Reduction in Active lupus nephritis or "AURA");
- the timing of the analysis and review of the AURA data with the U.S. Food and Drug Administration ("FDA or Agency");
- 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 LN;
- the Company's intention to conduct a Japanese Phase 1 trial;
- 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;
- the Company's intention to raise additional funds in the next 12 months;
- the timing of the Company's anticipated milestones in future periods;
- the Company's belief that voclosporin offers relevant clinical benefits as compared to the older off-patent calcineurin inhibitors ("CNI") and existing commercially available CNIs and thus possess a unique position in the market;
- the Company's belief that the inhibition of activation of T-cells will have a positive modulatory effect in the treatment of LN;

- 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 on a timely basis 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.

For additional information on risks and uncertainties in respect of the Company and its business, 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 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.

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

FDA End of Phase 2 Meeting

On November 2, 2016, the Company announced its plans for a single Phase 3 clinical trial for voclosporin in the treatment of LN. Pursuant to its recent End of Phase 2 meeting with the FDA Division of Pulmonary, Allergy and Rheumatology Products, Aurinia believes this Phase 3 clinical trial whose design is consistent with the ongoing AURA clinical trial, will support a New Drug Application (NDA) submission.

The Phase 3 AURORA trial will be a global 52-week double-blind, placebo controlled study of approximately 320 patients. The Company is finalizing the study protocol and regulatory submissions and in parallel is working on site selection with trial initiation anticipated in Q2 2017. Patients will be randomized 1:1: to either 23.7mg voclosporin BID and MMF or MMF and placebo, with both arms receiving a stringent oral corticosteroid taper. The study population will be comprised of patients with biopsy-proven active LN who will be evaluated on the primary efficacy endpoint of renal response at 24 weeks, a composite which includes:

- Urinary/protein creatinine ratio (UPCR) of ≤ 0.7 mg/mg
- Normal, stable renal function (≥ 60 mL/min/1.73m² or no confirmed decrease from baseline in eGFR of $>20\%$)
- Presence of sustained, low dose steroids (≤ 10 mg prednisone from week 16-24)
- No administration of rescue medications

The readout of the primary endpoint of renal response at 24 weeks will occur after database lock at 52 weeks, at which point the Company intends to submit an NDA. Patients completing the 52-week study will then have the option to roll-over into a 104 week blinded continuation study. These data will allow the Company to assess long-term outcomes in LN patients that will be valuable in a post-marketing setting in addition to future interactions with various regulatory authorities.

While voclosporin has received fast track designation, the FDA has informed the Company that voclosporin is not eligible for breakthrough therapy designation at this time. Aurinia will continue to benefit from its fast track designation which includes more frequent communications with the FDA and potential for priority review and an option to submit a rolling NDA submission, which may expedite the review process.

The Company's initial forecast is that the AURORA clinical trial will cost in the range of \$70 million to \$80 million. However, it is still in the process of obtaining quotes from suppliers and CROs and determining the optimum number of countries and sites in which to conduct the AURORA trial and as result this forecast may change. In addition, the initial estimate of the cost of the continuation study is in the range of \$20 million to \$25 million.

AURION Clinical Trial Update

On October 6, 2016 the Company announced 24-week data in all 10 patients from the AURION (Aurinia early Urinary protein Reduction Predicts Response) clinical trial, an open-label exploratory study to assess the short-term predictors of response using voclosporin (23.7mg BID) in combination with MMF and oral corticosteroids in patients with active LN.

The primary objective of the trial is to examine biomarkers of disease activity at eight weeks and their ability to predict response at 24 and 48 weeks.

In this trial, 70% (7/10) patients achieved CR at 24 weeks as measured by a UPCR of ≤ 0.5 mg/mg, eGFR within 20% of baseline and concomitant steroid dose of <5 mg/day. Of the 10 patients that achieved a reduction of UPCR of $\geq 25\%$ at 8 weeks, 80% were responders ($\geq 50\%$ reduction in UPCR over baseline) at 24 weeks and 70% were in CR at 24 weeks. In addition, inflammatory markers such as C3, C4, and anti-double-stranded DNA, a marker of LN, all continued to normalize to 24 weeks. Voclosporin was well-tolerated with no unexpected safety signals observed.

Details of the results are below:

Patient #	Attained $\geq 25\%$ reduction in UPCR at 8 weeks	Attained Partial Remission* at 8 weeks	Attained Partial Remission* at 24 weeks	Attained Complete Remission at 8 weeks	Attained Complete Remission at 24 weeks
1	Y	Y	Y	Y	Y
2	Y	Y	Y	Y	Y
3	Y	Y	Y	N	N
4	Y	N	N	N	N
5	Y	Y	Y	Y	Y
6	Y	Y	Y	Y	Y
7	Y	N	N	N	N
8	Y	Y	Y	Y	Y
9	Y	N	Y	N	Y
10	Y	Y	Y	N	Y
TOTALS:	100% (10/10)	70%(7/10)	80% (8/10)	50% (5/10)	70% (7/10)

*Retrospectively defined by $\geq 50\%$ reduction in UPCR

THIRD QUARTER DEVELOPMENTS

AURA Phase 2b Clinical Trial – Positive Top-Line Results

On August 15, 2016, the Company announced positive top-line results from the Phase 2b AURA clinical trial in patients with active LN. The trial achieved its primary endpoint, demonstrating statistically significantly greater complete remission (CR) (as defined by confirmed UPCR of ≤ 0.5 mg/mg at 24 weeks and confirmed at 26 weeks) in patients treated with 23.7 mg of voclosporin twice daily ($p=0.045$). Both treatment arms, 23.7 mg and 39.5 mg twice daily also showed a statistically significant improvement in the rate of achieving partial remission (PR) at 24 weeks ($p=0.007$; $p=0.024$). Each arm of the study included the current standard of care (SoC) of mycophenolate mofetil (MMF, also known as CellCept®) as background therapy and a forced steroid taper to 5 mg/day by week 8 and 2.5 mg by week 16.

AURA Trial Design

The AURA clinical trial compared the efficacy of voclosporin added to current standard of care of MMF against standard of care with placebo in achieving CR in patients with active LN. It enrolled 265 patients at centers in 20 countries worldwide. On entry to the study, patients were required to have a diagnosis of LN according to established diagnostic criteria (American College of Rheumatology) and clinical and biopsy features indicative of highly active nephritis.

Patients were randomized to one of two dosage groups of voclosporin (23.7 mg BID and 39.5 mg BID) or placebo, with all patients also receiving MMF and oral corticosteroids as background therapy. All patients had an initial IV dose of steroids (500-1000 mg) and then were started on 20-25 mg/daily, which was tapered down to a low dose of 5 mg daily by week 8 and 2.5 mg daily by week 16.

The primary endpoint was a composite measure of the number of patients who achieved CR at 24 weeks (confirmed at 26 weeks); CR was defined as a protein/creatinine ratio of ≤ 0.5 mg/mg as well as normal stable renal function (eGFR ≥ 60 mL/min/1.73m² or no confirmed decrease from baseline in eGFR of $\geq 20\%$), along with steroid doses of ≤ 10 mg/day.

Summary of Results

The groups were generally well-balanced for age, gender and race, however, when considered together, the proteinuria and GFR data suggest that disease severity was greater for the low-dose voclosporin group.

Efficacy

- The primary endpoint of CR was met for the low-dose voclosporin group in the ITT analysis ($p=0.045$). 32.6% of patients on low dose achieved CR, compared to 27.3% on high dose and 19.3% in the control arm.
 - The odds ratio indicates that patients were twice as likely to achieve CR at 24 weeks compared to the control arm ($OR=2.03$).
 - The primary endpoint was re-analyzed using the 24-hour urine data in place of First Morning Void (FMV) collections, confirming the finding that patients were twice as likely to achieve CR at 24 weeks compared to the control arm ($p=0.047$; $OR=2.12$).
- Both voclosporin groups had a significantly faster time to CR ($UPCR \leq 0.5$ mg/mg) than the control arm. Results of time to CR for co-variate analyses were broadly consistent with overall efficacy rates in those sub-groups.
- The secondary endpoint of PR (50% reduction in UPCR over baseline) was met for both voclosporin groups in the ITT analysis with 69.7% of patients on low dose achieving PR ($p=0.007$) and 65.9% in the high dose group ($p=0.024$). 49.4% of patients in the control arm achieved PR.
- Time to PR was similar (4 weeks) in the two voclosporin groups and was shorter than what was observed in the control group (6.6 weeks).

Safety

- The overall rate of adverse events (AEs) was similar across all groups.
- The overall rate of serious adverse events (SAEs) was higher in both voclosporin groups but the nature of SAEs is consistent with highly active LN.
- The overall pattern of AEs and SAEs was consistent with that observed in other LN studies.
- There were 13 deaths across the trial: two in the high-dose voclosporin arm; 10 in the low-dose voclosporin arm; and one in the control arm. All deaths were assessed by the Investigator as being unrelated to study treatment. No dose relationship was observed for the deaths.

On September 29, 2016, the Company announced that in addition to voclosporin (23.7 mg BID) achieving its primary endpoint of CR at 24 weeks, both doses of voclosporin when added to the current standard of care of MMF and a forced oral corticosteroid taper have met all 24-week pre-specified secondary endpoints vs the control group. These pre-specified endpoints include: PR, which is measured by a $\geq 50\%$ reduction in UPCR with no concomitant use of rescue medication; time to CR and PR; reduction in Systemic Lupus Erythematosus Disease Activity Index or SLEDAI score; and reduction in UPCR over the 24-week treatment period. These results are listed in the table below:

Pre-specified Secondary Endpoint	Control	Low Dose VCS (23.7mg BID)	High Dose VCS (39.5mg BID)
Time to Complete Remission (TTCR) [median]	Not achieved	19.7 weeks	23.4 weeks
		$p < .001$	$p = .001$
Partial Remission (as measured by UPCR reduction of $\geq 50\%$ from baseline)	49%	70%	66%
		$p = .007$	$p = .024$
Time to Partial Remission (TTPR) [median]	6.6 weeks	4.1 weeks	4.4 weeks
		$p = .002$	$p = .003$
SLEDAI Reduction	-4.5	-6.3	-7.1
		$p = .003$	$p = .003$
Reduction in UPCR	-2.216 mg/mg	-3.769 mg/mg	-2.792 mg/mg
		$p < .001$	$p = .006$

All p-values are vs control

The safety and tolerability of voclosporin has been well-documented in numerous studies. In previous studies, over 2,000 patients have been treated with voclosporin with no abnormal or SAEs.

The AURA clinical trial enrolled the most severe patients in a global clinical study of LN, as measured by proteinuria at baseline. The difference in UPCR and the eGFR in the low dose voclosporin arm at baseline indicates patients had more severe disease.

No new safety signals were observed with the use of voclosporin in LN patients. The overall safety profile of voclosporin is consistent with other immunomodulators.

Both the AURA and AURION clinical trials remain ongoing to their 48-week endpoint.

At-the-Market (ATM) Facility

On July 22, 2016 the Company entered into a Controlled Equity Offering Sales Agreement with Cantor Fitzgerald & Co. (“Cantor Fitzgerald”) pursuant to which the Company may from time to time sell, through at-the-market (“ATM”) offerings with Cantor Fitzgerald acting as sales agent, such common shares as would have an aggregate offer price of up to US\$10 million. The Company also filed a prospectus supplement with securities regulatory authorities in Canada in the provinces of British Columbia, Alberta and Ontario, and with the United States Securities and Exchange Commission, which supplements the Company’s short form base shelf prospectus dated October 16, 2015, and the Company’s shelf registration statement on Form F-10 dated October 16, 2015, declared effective on November 5, 2015. Sales in the ATM offering were only conducted in the United States, through NASDAQ, at market prices. No sales were conducted in Canada or through the Toronto Stock Exchange.

The Company currently intends to use the proceeds from sales related to this ATM offering, primarily for working capital and general corporate purposes, including funding for the planning and initiation phases required for the Phase 3 LN clinical trial.

The Company received net proceeds of \$5.74 million in the third quarter ended September 30, 2016 upon the issuance of 2.62 million common shares.

SUMMARY DESCRIPTION OF BUSINESS

Aurinia is a clinical stage pharmaceutical company focused on the global nephrology market.

The Company has, since September 20, 2013, rebranded, restructured and refocused itself around a strategy concentrated on the development of voclosporin for the treatment of LN. Voclosporin is a next-generation calcineurin inhibitor (CNI) with a synergistic and dual mechanism of action. By blocking calcineurin, it prevents the subsequent expression of IL-2 and the T-cell-mediated immune response. The mechanism of action of voclosporin 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 improve near and long-term outcomes in LN when added to the current SoC of MMF.

Voclosporin is made by a modification of a single amino acid of the cyclosporine molecule, enabling the potential to have several advantages over existing therapies.

- Predictable concentration effect due to tight pharmacokinetic and pharmacodynamics relationship
- Fixed dosing (oral, twice daily)
- No impact on exposure of MPA (active moiety of MMF) when used concurrently
- Large safety database of >2,000 patients (it has previously been studied in kidney rejection following transplantation, psoriasis and in various forms of uveitis (an ocular disease)).

LN clinical and regulatory development program

The Company’s clinical strategy involves layering voclosporin on top of the current SoC and steroids to induce and maintain remission in patients suffering from active LN. There are currently two ongoing studies evaluating the efficacy of voclosporin utilizing this approach.

AURA Phase 2b Clinical Trial

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 for LN.

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 clinical trial is a large prospective registration-quality study, it 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. The AURA clinical trial has been designed to demonstrate that voclosporin when added to the current SoC can induce a rapid and sustained reduction of proteinuria with extremely low steroid exposure. The placebo-controlled trial assesses two doses of voclosporin (23.7 mg and 39.5 mg), with all patients receiving background therapy of MMF coupled with an aggressive oral corticosteroid taper. Inclusion criteria for the study are indicative of highly active disease.

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.

- Primary Outcome Measures:
 - The number of subjects achieving CR at 24 Weeks
 - CR is defined as: Confirmed urinary protein/creatinine ratio of ≤ 0.5 mg/mg and
 - Normal, stable renal function { ≥ 60 mL/min/1.73m² or no confirmed decrease from baseline in eGFR of $\geq 20\%$
 - Oral corticosteroid dose of less than 10mg/day of prednisone (or equivalent)
- Key Secondary Outcome Measure:
 - Durability of remission, 48 week outcomes, extra-renal lupus activity (measured by SLEDAI)

On January 19, 2016, the Company announced completion of patient enrollment of the AURA Phase 2b clinical trial at 265 patients (the target number of patients was 258).

On August 15, 2016, the Company announced positive top-line results for the trial and on September 30, 2016 announced that in addition to achieving its primary endpoint, voclosporin also met all 24-week pre-specified secondary endpoints in the Phase 2b AURA clinical trial, as discussed earlier in *Third Quarter Developments* section above.

The 48-week secondary endpoint results are expected to be announced in the first quarter of 2017.

FDA Fast Track

On March 2, 2016 the Company announced that the FDA granted Fast Track designation for voclosporin.

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.

AURION Clinical Trial

The AURION clinical trial, being conducted at two sites in Malaysia, 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 SoC and corticosteroids, in patients with active LN. It is the first trial to ever be conducted with voclosporin in this patient population and supports the Company's hypothesis that using voclosporin with the current standard of care may improve near and long-term clinical outcomes for patients with active LN. In the first quarter of 2016, the Company completed enrollment at ten patients.

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 SoC, CellCept®, in treating LN.

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

- Focusing the Company's resources on advancing voclosporin through a robust clinical trial program in preparation for regulatory filings worldwide.
- Mitigating development risk by leveraging the Company's past experiences in developing MMF/CellCept® for the treatment of LN.
- Consider strategic opportunities for other voclosporin formulations and new autoimmune indications. For example, the Company believes that recent granted formulation patents regarding the delivery of voclosporin to the ocular surface for conditions such as dry eye have the potential to be of therapeutic value. The Company will 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 LN

LN is one of the most serious progressions of Systemic Lupus Erythematosus (SLE). The Lupus Foundation of America estimates that >500 thousand people in the United States of America and up to 5.0 million people worldwide suffer from SLE. Approximately 90% of these patients 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 (ESRD), dialysis, renal transplant and death, if left untreated or are treated inadequately. These complications are both debilitating and costly.

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, yet there are currently no FDA or EMA approved therapies for LN.

Despite CellCept® being the current SoC 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 Inc., ChartTrends® SLE, December 2010).

CNIs and LN

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 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 Multi Targeted Therapeutic (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 for LN.

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 follow-up of patients in the Euro-lupus nephritis trial. Arthritis Rheum. 2004 Dec;50(12):3934-40.*)

The Company is leveraging voclosporin's unique properties when added to the current SoC in order to improve both near and long-term outcomes for patients with active LN.

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

While SLE is a highly heterogeneous autoimmune disease (often with multiple organ and immune system involvement), LN has straightforward disease outcomes. 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. An early response in LN correlates with long-term outcomes and is clearly measured by proteinuria.

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

Market potential of voclosporin

The Company’s assumptions regarding the market potential for voclosporin are largely based on third party market research commissioned by the Company that was conducted around:

- Analogs;
- Physician perspective on value (based on interviews/experience);
- Payers perspective on value (based on interviews/experience);
- Patient perspective on value (based on interviews/experience); and
- Reimbursement environment.

The Company estimates that there are approximately 125,000 to 200,000 LN patients in the United States and 175,000 to 250,000 in the European Union. Given clinical outcomes, a smaller addressable population and significant disease burden, the Company believes pricing flexibility exists within the United States market and the appropriate price range, if voclosporin gained regulatory

approval in the United States, could be in the range of \$50,000 to \$100,000 per patient annually. Based upon these assumptions, the Company estimates voclosporin peak sales could yield an annual global opportunity in excess of \$1 billion.

RESULTS OF OPERATIONS

For the third quarter ended September 30, 2016, the Company reported a consolidated net loss of \$7.42 million or \$0.21 per common share, as compared to a consolidated net loss of \$5.21 million or \$0.16 per common share for the same period in 2015.

For the nine months ended September 30, 2016, the consolidated net loss was \$14.96 million or \$0.44 per common share compared to a consolidated net loss of \$14.54 million or \$0.45 per common share for the comparable period in 2015.

After adjusting for the non-cash impact of the revaluation of the warrant liability, the net losses from operations for the three and nine month periods ended September 30, 2016 was \$6.50 million and \$16.04 million respectively compared to \$6.37 million and \$18.18 million for the comparable periods in 2015. The reason for these changes are discussed below.

Revenue and deferred revenue

The Company recorded revenues of \$31,000 and \$143,000 respectively for the three and nine month periods ended September 30, 2016 compared to \$57,000 and \$178,000 for the comparable periods in 2015.

The remaining deferred licensing revenue related to the 3SBio Inc. original fee payment 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 license agreement.

Research and Development expenses

Net research and development expenditures decreased to \$3.34 million and \$9.07 million respectively for the three and nine month periods ended September 30, 2016 compared to \$4.67 million and \$12.33 million respectively for the three and nine month periods ended September 30, 2015.

CRO and other third party clinical trial costs were \$2.10 million and \$6.18 million respectively for the three and nine month periods ended September 30, 2016 compared to \$3.67 million and \$8.74 million respectively for the three and nine month periods ended September 30, 2015. The decrease in costs in 2016, reflect lower AURA trial costs as the number of active patients reduce each quarter in 2016 as patients complete the 48 week trial.

The Company incurred drug supply costs, primarily for drug packaging, stability and distribution, of \$502,000 and \$1.06 million respectively for the three and nine month periods ended September 30, 2016 compared to \$393,000 and \$1.37 million respectively for the three and nine month periods ended September 30, 2015. These costs increased as a result of commencing the manufacturing work for the drug supply for the Phase 3 trial offset to a degree by a reduction in AURA distribution costs.

Salaries, annual incentive pay and employee benefits were \$494,000 and \$1.11 million respectively for the three and nine month periods ended September 30, 2016 compared to \$297,000 and \$907,000 respectively for the three and nine month periods ended September 30, 2015. The increase was primarily due to a higher bonus accrual provision reflecting the achievement of a higher percentage of corporate bonus objectives for the three months ended September 30, 2016 compared to the same period in 2015.

The Company recorded non-cash stock compensation expense of \$79,000 and \$288,000 respectively for the three and nine month periods ended September 30, 2016, (2015 - \$140,000 and \$773,000). Decrease in expense reflected less stock options issued to research and development personnel in 2016 and the timing of when the options were granted in 2016 compared to the comparable periods in 2015.

Patent annuity and other fees expensed were \$48,000 and \$167,000 respectively for the three and nine month periods ended September 30, 2016 compared to \$79,000 and \$231,000 respectively for the three and nine month periods ended September 30, 2015.

Travel expenses related to research and development were \$95,000 and \$203,000 respectively for the three and nine month periods ended September 30, 2016 compared to \$71,000 and \$196,000 respectively for the three and nine month periods ended September 30, 2015.

Other expenses, which included items such as clinical trial insurance, phone, publications and trial courier costs, were \$20,000 and \$65,000 respectively for the three and nine month periods ended September 30, 2016 compared to \$25,000 and \$114,000 respectively for the three and nine month periods ended September 30, 2015.

Corporate, administration and business development expenses

Corporate, administration and business development expenses were \$1.72 million and \$4.74 million respectively for the three and nine month periods ended September 30, 2016 compared to \$1.38 million and \$4.70 million respectively for the three and nine month periods ended September 30, 2015.

Corporate, administration and business development expenses included non-cash stock option expense of \$469,000 and \$739,000 respectively for the three and nine month periods ended September 30, 2016 compared to \$539,000 and \$1.96 million respectively for the three and nine month periods ended September 30, 2015. Stock-based compensation expense is more fully discussed in the stock-based compensation expense section below.

Other expenses were as follows:

Salaries, payroll accruals and employee benefits were \$657,000 and \$1.99 million respectively for the three and nine month periods ended September 30, 2016 compared to \$376,000 and \$1.10 million respectively for the three and nine month periods ended September 30, 2015. The increase was primarily due to a higher bonus accrual provision reflecting the achievement of a higher percentage of corporate bonus objectives for the three months ended September 30, 2016 compared to the same period in 2015. The 2016 figures for the nine month period ended September 30, 2016 also included a provision of \$597,000 related to the departure from the Company of the former Chief Executive Officer on April 10, 2016. Pursuant to an agreement signed between the Company and the former Chief Executive Officer, he is to be paid approximately \$597,000 over 14 months from the date of his resignation as Chief Executive Officer and director of the Company.

Professional and consulting fees were \$223,000 and \$921,000 respectively for the three and nine month periods ended September 30, 2016 compared to \$129,000 and \$618,000 respectively for the three and nine month periods ended September 30, 2015.

The increase in professional and consulting fees for the three and nine month periods ended September 30, 2016 was primarily the result of increases of \$84,000 and \$347,000 respectively in consulting fees related to product market research and investor relation activities.

Trustee fees, filing fees and other public company costs were \$31,000 and \$168,000 respectively for the three and nine month periods ended September 30, 2016 compared to \$86,000 and \$235,000 respectively for the three and nine month periods ended September 30, 2015.

Travel and promotion expenses related to corporate, administration and business development increased to \$119,000 and \$317,000 respectively for the three and nine month periods ended September 30, 2016 compared to \$47,000 and \$188,000 respectively for the three and nine month periods ended September 30, 2015. This increase reflects additional travel and promotion activities incurred in 2016 related to investor relations and business development activities.

Director fees decreased to \$64,000 and \$193,000 respectively for the three and nine month periods ended September 30, 2016 compared to \$74,000 and \$239,000 respectively for the three and nine month periods ended September 30, 2015. The decreased director fees in 2016 was due to the foreign exchange effect of the lower Canadian dollar relative to the US dollar.

Rent, utilities and other facility costs were \$65,000 and \$156,000 respectively for the three and nine month periods ended September 30, 2016 compared to \$49,000 and \$137,000 respectively for the three and nine month periods ended September 30, 2015.

Insurance, information technology, phone, office and other increased to \$89,000 and \$256,000 respectively for the three and nine month periods ended September 30, 2016 compared to \$79,000 and \$223,000 respectively for the three and nine month periods ended September 30, 2015 due primarily to higher insurance costs.

Stock-based Compensation expense

For stock option plan information, stock option grants and outstanding stock option details refer to note 7 of the unaudited interim condensed consolidated financial statements for the three and nine month periods ended September 30, 2016.

The Company granted 140,000 and 1.66 million stock options for the three and nine month periods ended September 30, 2016 respectively at weighted average exercise prices of CDN\$3.28 and CDN\$3.41 per common share respectively compared to 323,000 and 1.39 million stock options at weighted average exercise prices of CDN\$4.30 and CDN\$4.70 respectively for the same periods in 2015.

Application of the fair value method resulted in charges to stock-based compensation expense of \$548,000 and \$1.27 million respectively for the three and nine month periods ended September 30, 2016 (2015 – \$679,000 and \$2.74 million) with corresponding credits to contributed surplus. For the three and nine month periods ended September 30, 2016, stock-based compensation expense has been allocated to research and development expense in the amounts of \$79,000 and \$288,000

respectively (2015 –\$140,000 and \$773,000) and corporate and administration expense in the amount of \$469,000 and \$739,000 respectively (2015 – \$539,000 and \$1.96 million).

The decrease in stock-based compensation expense in 2016 related to a change in the vesting period to 36 months from 12 months for options issued in the second and third quarters of 2016, the timing of when the options were granted, and reductions in the volatility and risk-free interest rate factors used in the Black-Scholes calculations.

Amortization of acquired intellectual property and other intangible assets

Amortization of acquired intellectual property and other intangible assets was \$357,000 and \$1.10 million respectively for the three and nine month periods ended September 30, 2016 compared to \$429,000 and \$1.18 million recorded in the same periods in 2015.

Other expense (income)

The Company recorded other expense of \$1.08 million and \$1.25 million respectively for the three and nine month periods ended September 30, 2016 compared to other income of \$55,000 for the three months ended September 30, 2015 and other expense of \$126,000 for the nine months ended September 30, 2015.

The outstanding fair value of contingent consideration payable to ILJIN Life Science Co., Ltd. (“ILJIN”) resulting from the Arrangement Agreement completed on September 20, 2013 between the Company, Aurinia Pharma Corp. and ILJIN consists of potential payments of up to \$10 million to be paid in five equal tranches according to the achievement of pre-defined clinical and marketing milestones.

The primary reason for the change in other expense (income) related to the revaluation adjustment on this contingent consideration.

The Company achieved a positive 24 week primary endpoint result in the Phase 2b clinical LN trial in the third quarter of 2016. As such while no milestone was attached to this positive primary endpoint result, it was an event that triggered an adjustment of the probability of success of the milestones such that the probability of success factors were increased for certain of the milestones. As a result of this adjustment the probability factors, the probability adjusted payment ranges were increased to 35% to 90% as at September 30, 2016 from 35% to 70% as at June 30, 2016. The change in probability factors for the milestones resulted in revaluation of contingent consideration expense of \$1.15 million for the three months ended September 30, 2016 compared to \$25,000 for the comparable period in 2015. The fair value estimates at September 30, 2016 were based on a discount rate of 10% which has remained unchanged since December 31, 2015.

The fair value of the contingent consideration liability at September 30, 2016 was estimated to be \$5.08 million (December 31, 2015 - \$3.81 million) and was determined by applying the income approach. The current portion of the contingent consideration liability of \$1.72 million represents the first milestone that is expected to be achieved within the year. The remaining amount of \$3.36 million has been classified as long-term.

If the probability for success were to increase by the factor of 10% for each milestone this would increase the obligation by approximately \$775,000 at September 30, 2016. If the probability for success were to decrease by the factor of 10% for each milestone this would decrease the obligation by approximately \$775,000.

Gain (loss) on derivative warrant liability

The Company recorded a non-cash loss on the derivative warrant liability of \$951,000 for the three month period ended September 30, 2016 and a non-cash gain on the derivative warrant liability of \$1.07 million for the nine month period ended September 30, 2016 compared to non-cash gains on the derivative warrant liability of \$1.16 million and \$3.64 million respectively for the three and nine month periods ended September 30, 2015. These fair value revaluations fluctuate based primarily on the market price of the Company’s common shares and volatility. The derivative warrant liability is more fully discussed in note 6 to the unaudited interim condensed consolidated financial statements for the third quarter ended September 30, 2016.

LIQUIDITY AND CAPITAL RESOURCES

The Company is in the development stage and is devoting substantially all of its operational efforts and working capital towards voclosporin development activities in the LN indication with the primary focus currently on completing the Phase 2b AURA clinical trial and conducting the planning activities for the Phase 3 program.

As at September 30, 2016, the Company had net working capital, excluding the current portion of contingent consideration, of \$14.27 million compared to \$12.92 million as at December 31, 2015. For the three month period ended September 30, 2016, the

Company reported a loss of \$7.42 million (September 30, 2015 – \$5.21 million) and a cash outflow from operating activities of \$4.19 million (September 30, 2015 – \$5.20 million). As at September 30, 2016, the Company had an accumulated deficit of \$272.72 million (December 31, 2015 – \$257.75 million).

The Company received net proceeds of \$5.74 million under the ATM facility and warrant exercise proceeds of \$1.67 million in the third quarter ended September 30, 2016. These proceeds together with the proceeds from the private placement completed in June of 2016, have provided the Company with liquidity in the short-term and sufficient funding to complete the Phase 2b AURA clinical trial and commence the planning portion of the Phase 3 LN program. However, the Company will need to obtain substantial additional funding within the next 12 months in order to continue the planned development of voclosporin for LN, including the funding of the active patient portion of the Phase 3 program. The Company plans to continue to fund its operational needs through equity/and/or debt financing. It may also consider collaborations or selectively partnering the product in other territories such as Europe and Japan for clinical development and commercialization.

On October 16, 2015, the Company had 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 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 the Company the capability to access new capital from time to time. The Shelf prospectus was utilized for the ATM facility, and as result, the remaining amount currently available under the Shelf Prospectus is \$242 million.

The outcome of new offerings 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. (see note 2 -“Going Concern” to the unaudited interim condensed consolidated financial statements for the third quarter ended September 30, 2016, as well as “Risk Factors” in this MD&A).

Any sale of additional equity may 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 and potentially materially alter its strategic alternatives.

Sources and Uses of Cash for the three and nine month periods ended September 30, 2016 and September 30, 2015

Sources and Uses of Cash (in thousands of dollars)	Three months ended Sept 30			Nine months ended Sept 30		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
	\$	\$	\$	\$	\$	\$
Cash used in operating activities	(4,188)	(5,198)	1,010	(14,453)	(12,928)	(1,525)
Cash provided by (used in) investing activities	(39)	8	(47)	6,955	(23)	6,978
Cash provided by financing activities	7,435	56	7,379	14,075	839	13,236
Net increase (decrease) in cash and cash equivalents	3,208	(5,134)	8,342	6,577	(12,112)	18,689

Net cash used in operating activities for the three and nine month periods ended September 30, 2016, was \$4.19 million and \$14.45 million respectively compared to cash used in operating activities of \$5.20 million and \$12.93 million respectively for the three and nine month periods ended September 30, 2015. Cash used in operating activities in 2016 and 2015 was composed of net loss, add-backs or adjustments not involving cash and net change in non-cash working items. Included in the net change in non-cash working items was an increase in the prepaid expenses and deposits balance at September 30, 2016 of \$1.11 million from the balance at December 31, 2015. The amount at September 30, 2016 includes a deposit to Lonza Ltd. of \$1.04 million made in June, 2016 to secure a manufacturing slot for voclosporin.

Cash used in investing activities for the three month period ended September 30, 2016 was \$39,000. Cash provided by investing activities for the nine month period ended September 30, 2016 was \$6.99 million. Cash provided by investing activities was \$8,000 for the three months ended September 30, 2015, compared to \$23,000 used in investing activities for the nine months ended September 30, 2015.

In 2016, the Company, transferred \$7.00 million to cash and cash equivalents upon maturity of the bank discount notes. The remaining \$3.05 million was invested into a US denominated discount note which comes due November 8, 2016.

Cash provided by financing activities for the three and nine month periods ended September 30, 2016, was \$7.44 million and \$14.08 million respectively compared to cash provided by financing activities of \$56,000 and \$839,000 for the three and nine month periods ended September 30, 2015.

The Company received net proceeds of \$5.74 million from the ATM facility in the third quarter of 2016. Previously, in the second quarter of 2016 the Company received net proceeds of \$6.64 million from the private placement equity financing. The Company also received \$1.67 million and \$1.67 million for the exercise of warrants for the three and nine month periods ended September 30, 2016 compared to \$Nil and \$685,000 for same periods ended in 2015. The Company also received \$27,000 and \$27,000 from the exercise of stock options for the three and nine month periods ended September 30, 2016 respectively compared to \$56,000 and \$154,000 from the exercise of stock options for the three and nine month periods ended September 30, 2015 respectively.

Use of Proceeds from February 14, 2014 private placement

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 September 30, 2016 from that financing are set out below:

	Expected use of proceeds for period to September 30, 2016 (in thousands)	Incurred for period to September 30, 2016 (in thousands)
	\$	\$
Research and development of voclosporin	26,846	32,305
Other corporate purposes		
Corporate, administration and business development	13,174	11,277
Repayment of drug supply loan	1,290	1,290
Payment of financing milestone to ILJIN	1,472	1,600
Payment of accounts payable and accrued liabilities	1,106	1,106
	17,042	15,273
Total	43,888	47,578

The actual expenditures for research and development reflect a variance of \$5.46 million compared to the expected use of proceeds. This variance is primarily due to additional costs incurred for the AURA clinical trial resulting from higher drug distribution and freight costs and higher CRO costs and other operational costs due to the delay in completing enrollment from that initially projected, and conducting the AURION clinical trial.

CONTRACTUAL OBLIGATIONS

The Company has the following contractual obligations as at September 30, 2016:

	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⁾	\$ 96	\$ 96	-	-
Purchase obligations ⁽²⁾	217	213	4	-
Accounts payable and accrued liabilities	2,932	2,932	-	-
Contingent consideration to ILJIN ⁽³⁾	5,082	1,716	622	2,744
Total	8,327	4,957	626	2,744

(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 5 of the interim condensed consolidated financial statements for the third quarter ended September 30, 2016.

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 \$35,000 and \$159,000 respectively for the three and nine month periods ended September 30, 2016 compared to \$33,000 and \$84,000 respectively for the three and nine month periods ended September 30, 2015. 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.

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’s off-balance sheet financing arrangements consist of lease agreements for the rental of its premises. These leases have been treated as operating leases whereby the lease payments are reflected as rent 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 ACCOUNTING POLICY DEVELOPMENTS

A complete listing of critical accounting policies, estimates, judgments and measurement uncertainty can be found in notes 3 and 4 of the annual consolidated financial statements for the year ended December 31, 2015. There has been no significant change in our critical accounting policies, estimates, judgments and measurement uncertainty in the three and nine month periods ended September 30, 2016.

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 period ended September 30, 2016. A listing of the standards issued which are applicable to the Company can be found in note 3 of the annual consolidated financial statements for the year ended December 31, 2015. No new standards or amendments were adopted for the three and nine month periods ended September 30, 2016.

The accounting policies are consistent with the significant accounting policies used in the preparation of the audited annual consolidated financial statements for the year ended December 31, 2015. These policies have been consistently applied to all periods presented.

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 those listed below.

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.

The Company recently closed its first ATM facility for gross proceeds of \$8 million and completed a private placement on June 22, 2016 for gross proceeds of \$7.08 million.

However, in order to continue the further development and commercialization of voclosporin, which includes conducting the Phase 3 program, the Company expects it will need to raise additional funds beyond these amounts within the next 12 months.

This condition raises doubt about the Company’s ability to continue as a going concern without raising this additional required financing.

As a result, the Company’s unaudited interim condensed consolidated financial statements for the three months ended September 30, 2016, 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 unaudited interim condensed consolidated financial statements may also adversely affect its relationships with current and future collaborators, contract manufacturers and investors, who may grow concerned about the Company’s ability to meet its 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. Without this additional funding, the Company will be required to review and potentially materially alter its strategic alternatives.

Other risk factors also include the reliance on and requirement for the following:

- successful completion and positive results for its clinical program in LN, including the AURA and AURION clinical trials currently underway;
- Timely completion of the AURA and AURION clinical trials;
- 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 clinical and commercial quantities of the product through validated processes are available as required;
- 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 most recently filed Annual Information Form 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. 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 unaudited interim condensed consolidated financial statements for the third quarter ended September 30, 2016, the Company is dependent on raising additional financing to complete the voclosporin LN clinical trial program.

All of the Company's financial liabilities are due within one year except for the long-term portion of contingent consideration to ILJIN.

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:

	September 30, 2016	September 30, 2015
	\$	\$
Cash and cash equivalents	696	102
Accounts receivable	97	41
Accounts payable and accrued liabilities	<u>(654)</u>	<u>(515)</u>
Net exposure	<u>139</u>	<u>(372)</u>
	Reporting date rate	
	September 30, 2016	September 30, 2015
	\$	\$
\$CDN - \$US	<u>0.762</u>	<u>0.749</u>

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 \$14,000 as at September 30, 2016 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.

INTELLECTUAL PROPERTY

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

As of September 30, 2016, the Company owned 11 granted United States patents and two United States patent applications related to cyclosporin analogs, including granted United States patents covering voclosporin composition of matter, methods of use, formulations and synthesis, which expire between 2018 and 2024, and 151 corresponding granted patents and four corresponding patent applications in other jurisdictions, excluding Canada, South Africa and Israel, which expire between 2018 and 2022. The corresponding Canadian, South African and Israeli patents are owned by Paladin Labs Inc. It is anticipated that upon regulatory approval, patent protection for voclosporin will be extended in the United States and certain other major markets, including Europe and Japan, until at least October 2027 under the Hatch-Waxman Act and comparable laws in other countries. In addition to patent rights, the Company also expects to receive "new chemical entity" exclusivity for voclosporin in certain countries, which provides from five years in the United States to up to ten years in Europe of data exclusivity beyond the date of regulatory approval.

The Company has licensed the development and distribution rights to voclosporin for China, Hong Kong and Taiwan to 3SBio Inc. This license is royalty bearing and the Company will also supply finished product to 3SBio Inc. on a cost plus basis. The Company does not expect to receive any royalty revenue pursuant to this license in the foreseeable future.

As of September 30, 2016, the Company also owned two granted United States patents related to ophthalmic formulations of CNIs or mTOR inhibitors, including voclosporin, and one granted United States patent related to ophthalmic formulations of dexamethasone, which expire between 2028 and 2030. The Company also owns 14 corresponding granted patents and four corresponding patent applications in other jurisdictions.

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.

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

Disclosure controls and procedures and internal controls over financial reporting

During the third quarter ended September 30, 2016, there were no changes to the Company’s disclosure controls or to the Company’s internal controls over financial reporting that materially affected, or are reasonably likely to materially affect, such controls.

UPDATED SHARE INFORMATION

As at November 3, 2016, the following class of shares and equity securities potentially convertible into common shares were outstanding:

(expressed in thousands of shares)

Common shares	39,727
Convertible equity securities	
Derivative liability warrants	3,929
Other warrants	1,368
Stock options	4,088

Subsequent to the quarter end, a non-affiliated third party holder of February 14, 2014 warrants exercised the cashless exercise option and received 224,000 common shares of the Company upon the exercise of 619,000 warrants. In addition, 11,000 warrants were exercised for proceeds of \$21,000 and 10,000 stock options were exercised for proceeds of \$27,000.

Subsequent to the end of the third quarter, the Company also issued 688,000 common shares, receiving net proceeds of \$1.80 million under the ATM facility. Sales pursuant to this ATM were concluded subsequent to the end of the third quarter and in total the Company received gross proceeds in the aggregate of \$8 million, which was the maximum allowable pursuant to the limit imposed under the rules of the Toronto Stock Exchange.

Quarterly Information

(expressed in thousands except per share data)

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

	Three months ended							
	2016			2015				2014
	Sept 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Revenue	31	55	57	57	57	59	62	68
Expenses								
Research and development costs	3,342	2,406	3,324	3,652	4,670	4,330	3,330	3,092
Corporate, administration and business development costs	1,716	1,835	1,192	1,564	1,380	1,414	1,905	1,399
Amortization and impairment of tangible and intangible assets	362	365	387	363	434	363	398	410
Contract services	1	1	1	2	1	4	5	8
Restructuring and acquisition	-	-	-	-	-	-	-	36
Other expense (income)	1,078	85	84	2	(55)	83	98	42
Gain (loss) on derivative warrant liability	(951)	1,361	664	1,463	1,163	5,402	(2,927)	(1,441)
Net loss for the period	(7,419)	(3,276)	(4,267)	(4,063)	(5,210)	(733)	(8,601)	(6,360)
Per common share (\$)								
Net loss – basic and diluted	(0.21)	(0.10)	(0.13)	(0.13)	(0.16)	(0.02)	(0.27)	(0.20)
Common Shares outstanding	38,794	35,287	32,287	32,287	32,287	32,267	32,062	31,818
Weighted average number of common shares outstanding – basic and diluted	36,079	32,551	32,287	32,287	32,278	32,237	31,859	31,774

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 research and development costs for the quarters from September 30, 2014 to September 30, 2016, primarily reflect the timing of costs incurred for the ongoing Phase 2b AURA clinical trial.

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

Corporate, administration and business development costs for the three months ended June 30, 2016 included a provision amount of \$597,000 related to the departure of the former Chief Executive Officer on April 10, 2016. 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) for the three months ended September 30, 2016 reflected a revaluation of contingent consideration of \$1,146,000.

OUTLOOK

Currently the Aurinia team is focused on preparations for initiating its Phase 3 program for voclosporin for the treatment of lupus nephritis. The Phase 3 AURORA clinical trial will be a global 52-week double-blind, placebo controlled study of approximately 320 patients. The Company is finalizing the study protocol and regulatory submissions and in parallel is working on site selection with trial initiation anticipated in Q2 2017. Patients will be randomized 1:1: to one of 23.7mg voclosporin BID and MMF or MMF and placebo with both arms receiving a stringent oral corticosteroid taper. The study population will be comprised of patients with biopsy-proven active lupus nephritis who will be evaluated on the primary composite efficacy endpoint of renal response at 24 weeks similar to that of the AURA clinical trial.

The team is also working to ensure the timely readouts of the 48-week data for both the AURA and AURION clinical trials. The Company is making the necessary investments now to ensure the team has the tools to deliver future success and to meet the goal of being in a position to commercialize voclosporin in the shortest time possible to improve the lives of patients living with this disease and to create shareholder value.

In conjunction with achieving these goals, the Company is also moving forward with the following key activities:

- Completing a Japanese Phase 1 trial to eliminate a requirement to conduct a stand-alone Japanese trial by potentially incorporating Japanese patients into the future global voclosporin study program;
- Manufacturing clinical drug supply;
- Validating commercial API and gel capsule manufacturing processes;
- Operational planning and site selection for the Phase 3 program;
- In-depth assessments of major market commercial potential of voclosporin;
- Advocacy outreach to support patient awareness and assist in Phase 3 enrollment and eventual market uptake;
- Prioritizing investigator initiated clinical trials that will be supportive of voclosporin's long-term value;
- Initiating the Phase 3 program for voclosporin.

We continued to receive promising data from the open-label AURION clinical trial as we reported 24 week data from all 10 patients in the trial which continues to support our hypothesis on the potential for multi-targeted therapy utilizing voclosporin for the treatment of LN.

The Company expects the following milestones for the rest of 2016 and first half of 2017:

- Late breaking presentations at the American College of Rheumatology (ACR) and the American Society of Nephrology (ASN);
- Meetings with European Medicines Agency (EMA) and Pharmaceutical & Medical Devices Agency, Japan (PMDA);
- Completion of Japanese Phase 1 clinical trial;
- AURA 48-week secondary endpoint results;
- AURION 48-week results;
- Initiation of Phase 3 program.

The Company is confident it can execute a successful Phase 3 registration trial based on the recent feedback from the FDA and the information gleaned from the AURA clinical trial. The Company will continue executing initiatives to maximize corporate value which primarily involves ensuring voclosporin reaches patients suffering from LN as soon as possible.

