

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

FORM 40-F

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

For the fiscal year ended December 31, 2018

Commission File Number 001-36421

AURINIA PHARMACEUTICALS INC.

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

<u>Title of each class:</u>	<u>Name of each exchange on which registered:</u>
Common Shares, no par value	The Nasdaq Stock Market LLC
Common Shares, no par value	Toronto Stock Exchange

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

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

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

- Annual Information Form** **Audited Annual Financial Statements**

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

85,500,228 Common Shares (as at December 31, 2018).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 12b-2 of the Exchange Act. Emerging growth company

Yes No

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of

the Exchange Act.

Yes No

† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

PRINCIPAL DOCUMENTS

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

A. Annual Information Form

For the Registrant’s Annual Information Form for the year ended December 31, 2018, see Exhibit 99.1 of this Annual Report on Form 40-F.

B. Audited Annual Financial Statements

For the Registrant’s Audited Consolidated Financial Statements for the year ended December 31, 2018, including the report of its Independent Auditor with respect thereto, see Exhibit 99.2 of this Annual Report on Form 40-F.

C. Management’s Discussion and Analysis

For the Registrant’s Management’s Discussion and Analysis of the operating and financial results for the year ended December 31, 2018, see Exhibit 99.3 of this Annual Report on Form 40-F.

CONTROLS AND PROCEDURES

A. Certifications

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

B. Disclosure Controls and Procedures

As of the end of the Registrant’s year ended December 31, 2018, an internal evaluation was conducted under the supervision of and with the participation of the Registrant’s management, including the Chairman and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Registrant’s “disclosure controls and procedures” as defined in Rule 13a-15(e) under Securities and Exchange Act of 1934, as amended (the “Exchange Act”). Based on that evaluation, the Chairman and Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of the Registrant’s disclosure controls and procedures were effective in ensuring that the information required to be disclosed in the reports that the Registrant files with or submits to the Securities and Exchange Commission (the “Commission”) is recorded, processed, summarized and reported, within the required time periods.

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

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

The Registrant’s management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Chairman and Chief Executive Officer and the Chief Financial Officer and effected by the Registrant’s Board of Directors, management and other personnel to provide reasonable assurance regarding the

reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management assessed the effectiveness of the registrant's internal control over financial reporting as of December 31, 2018, based on the criteria set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that, as of December 31, 2018, the Registrant's internal control over financial reporting was effective. In addition, management determined that there were no material weaknesses in the Registrant's internal control over financial reporting as of December 31, 2018.

D. Attestation Report of the Registered Public Accounting firm

This annual report on Form 40-F does not include an attestation report of the Registrant's independent registered public accounting firm due to an exemption established by the JOBS Act for "emerging growth companies".

E. Changes in Internal Control over Financial Reporting

During the year ended December 31, 2018, there were no changes in the Registrant's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

AUDIT COMMITTEE FINANCIAL EXPERT

The Registrant's Board of Directors has determined that Mr. Lorin Jeffry Randall is an "audit committee financial expert" (as that term is defined in paragraph 8(b) of General Instruction B to Form 40-F) serving on its audit committee and is "independent" (as defined by the New York Stock Exchange corporate governance rules applicable to foreign private issuers). For a description of Mr. Randall's relevant experience in financial matters, see the biographical description for Mr. Lorin Jeffry Randall under "Directors and Officers" in the Registrant's Annual Information Form for the year ended December 31, 2018, which is filed as Exhibit 99.1 to this Annual Report on Form 40-F.

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

CODE OF ETHICS

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

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

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The required disclosure is included under the heading "External Auditor Services Fees" on Schedule 1 – Audit Committee Information in the Registrant's Annual Information Form for the year ended December 31, 2018, filed as Exhibit 99.1 to this Annual Report on Form 40-F, and is incorporated herein by reference.

OFF-BALANCE SHEET ARRANGEMENTS

The Registrant does not have any "off-balance sheet arrangements" (as that term is defined in paragraph 11(ii) of General Instruction B to Form 40-F) that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors. For a discussion of the Registrant's other off-balance sheet arrangements, see page 14 of the Registrant's Management's Discussion and Analysis for the fiscal year ended December 31, 2018, attached as Exhibit 99.3.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The required disclosure is included under the heading "Contractual Obligations" in the Registrant's Management's Discussion and Analysis of the operating and financial results for the year ended December 31, 2018, filed as Exhibit 99.3 to this Annual Report on Form 40-F, and is incorporated herein by reference.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

See note 4 “Critical Accounting Estimates and Judgments” to the Audited Consolidated Financial Statements for the fiscal year ended December 31, 2018, filed as Exhibit 99.2 to this Annual Report on Form 40-F.

IDENTIFICATION OF THE AUDIT COMMITTEE

The Registrant has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Registrant’s Audit Committee members consist of Mr. Lorin Jeffry Randall, Mr. Benjamin Rovinski, and Dr. Hyuek Joon Lee. See “Directors and Executive Officers” and “Audit Committee Information” in the Registrant’s Annual Information Form for the fiscal year ended December 31, 2018, which is filed as Exhibit 99.1 to this Annual Report on Form 40-F.

DIFFERENCES IN NASDAQ AND CANADIAN CORPORATE GOVERNANCE REQUIREMENTS

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

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

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

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

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

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

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 40-F are forward-looking statements within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act of 1933, as amended. Please see “Forward Looking Information” in the Annual Information Form of the Registrant for the year ended December 31, 2018, filed as Exhibit 99.1 to this Annual Report on Form 40-F for a discussion of risks, uncertainties, and assumptions that could cause actual results to vary from those forward-looking statements.

UNDERTAKING

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

CONSENT TO SERVICE OF PROCESS

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

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

SIGNATURES

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

Date: March 19, 2019

Aurinia Pharmaceuticals Inc.

By: /s/ Dennis Bourgeault
Name: Dennis Bourgeault
Title: Chief Financial Officer

Form 40-F Table of Contents

<u>Exhibit No.</u>	<u>Document</u>
99.1	Annual Information Form of the Registrant for the fiscal year ended December 31, 2018.
99.2	Audited Consolidated Financial Statements of the Registrant for the year ended December 31, 2018 together with the Auditors' Report thereon.
99.3	Management's Discussion and Analysis of the operating and financial results of the Registrant for the year ended December 31, 2018.
99.4	Consent of PricewaterhouseCoopers LLP, Independent Auditor
99.5	Certifications of Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) pursuant to Section 302 of the <i>Sarbanes-Oxley Act of 2002</i> .
99.6	Certifications of Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) under Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Schema Linkbase Document.
101.CAL	XBRL Calculation Linkbase Document.
101.DEF	XBRL Definition Linkbase Document.
101.LAB	XBRL Extension Label Linkbase Document.
101.PRE	XBRL Presentation Linkbase Document.

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Table of Contents

TABLE OF CONTENTS

<u>BASIS OF PRESENTATION</u>	<u>1</u>
<u>FORWARD-LOOKING STATEMENTS</u>	<u>1</u>
<u>OVERVIEW</u>	<u>3</u>
<u>BUSINESS OF THE COMPANY</u>	<u>3</u>
<u>RECENT DEVELOPMENTS</u>	<u>7</u>
<u>THREE YEAR HISTORY</u>	<u>9</u>
<u>REGULATORY</u>	<u>17</u>
<u>BUSINESS MATTERS</u>	<u>18</u>
<u>RISK FACTORS</u>	<u>20</u>
<u>DIVIDEND POLICY</u>	<u>29</u>
<u>CAPITAL STRUCTURE</u>	<u>30</u>
<u>TRADING PRICE AND VOLUME OF AURINIA SHARES</u>	<u>30</u>
<u>ESCROWED SECURITIES</u>	<u>31</u>
<u>PRIOR SALES</u>	<u>31</u>
<u>DIRECTORS AND EXECUTIVE OFFICERS</u>	<u>31</u>
<u>CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS</u>	<u>36</u>
<u>LEGAL PROCEEDINGS AND REGULATORY ACTIONS</u>	<u>36</u>
<u>INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS</u>	<u>36</u>
<u>CONFLICTS OF INTEREST</u>	<u>36</u>
<u>TRANSFER AGENT AND REGISTRAR</u>	<u>37</u>
<u>MATERIAL CONTRACTS</u>	<u>37</u>
<u>INTERESTS OF EXPERTS</u>	<u>37</u>
<u>ADDITIONAL INFORMATION</u>	<u>37</u>
<u>SCHEDULE 1 - AUDIT COMMITTEE INFORMATION</u>	<u>38</u>
<u>SCHEDULE 2 - AUDIT COMMITTEE CHARTER</u>	<u>39</u>
<u>SCHEDULE 3 - GLOSSARY OF TERMS AND DEFINITIONS</u>	<u>44</u>

BASIS OF PRESENTATION

Unless otherwise stated, the information in this AIF is as of March 15, 2019.

In this AIF, unless stated otherwise or the context requires, all references to “\$” or “US\$” are to the lawful currency of the United States and all references to “CDN\$” are to the lawful currency of Canada.

On March 15, 2019 the exchange rate for conversion of US dollars into Canadian dollars was US\$1.00 = CDN\$1.3342 based upon the Bank of Canada closing rate.

Market data and certain industry forecasts used in this AIF were obtained from market research, publicly available information and industry publications. We believe that these sources are generally reliable, but the accuracy and completeness of this information is not guaranteed. We have not independently verified such information, and we do not make any representation as to the accuracy of such information.

In this AIF, unless the context otherwise requires, references to “we”, “us”, “our” or similar terms, as well as references to “Aurinia” or the “Company”, refer to Aurinia Pharmaceuticals Inc., together with our subsidiaries.

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

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

FORWARD-LOOKING STATEMENTS

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

Securities laws encourage companies to disclose forward-looking information so that investors can get a better understanding of our future prospects and make informed investment decisions. These statements made in this AIF may include, without limitation:

- our belief that the AURA clinical trial had positive results;
- our belief that we have sufficient cash resources to adequately fund operations;
- our belief that the totality of data from both the AURORA and AURA clinical trials can potentially serve as the basis for a NDA submission with the FDA following a successful completion of the AURORA clinical trial;
- our belief that confirmatory data generated from the single AURORA clinical trial and the completed AURA clinical trial should support regulatory submissions in the United States, Europe and Japan and the timing of such including the NDA submission in the United States;
- our belief that 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;
- our belief in the duration of patent exclusivity for voclosporin and that the patents owned by us are valid;
- our belief in receiving extensions to patent life based on certain events or classifications;
- our plans and expectations and the timing of commencement, enrollment, completion and release of results of clinical trials;
- our current forecast for the cost of the AURORA clinical trial and the AURORA 2 extension trial;
- our 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;
- our belief of the key potential benefits of voclosporin in the treatment of LN and other podocytopathies;
- our target launch date for voclosporin as a treatment for LN in early 2021;
- our belief in voclosporin being potentially a best-in-class CNI with robust intellectual property exclusivity and the benefits over existing commercially available CNIs;
- our belief that CNIs are a mainstay of treatment or DES;
- our belief that voclosporin has further potential to be effectively used across a range of therapeutic autoimmune areas including DES and FSGS;
- the timing for completion of enrollment and for data availability for our Phase 2 clinical study for voclosporin in FSGS patients;
- statements concerning the anticipated commercial potential of voclosporin for the treatment of LN, DES and FSGS;
- our plan to expand voclosporin renal franchise to include FSGS;
- our belief that the expansion of the renal franchise could create significant value for shareholders;
- our intention to use the net proceeds from financings for various purposes;
- our belief that our current financial resources are sufficient to fund our existing LN program including the AURORA trial and the NDA submission to the FDA, conduct the current Phase 2 study for FSGS, commence additional studies for DES, and fund operations into mid-2020;
- our plans to generate future revenues from products licensed to pharmaceutical and biotechnology companies;
- statements concerning partnership activities and health regulatory

- discussions;
• statements concerning the potential market for voclosporin;

Table of Contents

- our ability to take advantage of financing opportunities if and when needed;
- our belief that VOS has the potential to compete in the multi-billion-dollar human prescription dry eye market;
- our intention to seek additional corporate alliances and collaborative agreements to support the commercialization and development of our products;
- our belief that the USPTO will issue a new patent covering the dosing protocol for voclosporin in LN, with a patent term extending to 2037;
- our belief that additional patents may be granted worldwide based on our filings under the Patent Cooperation Treaty;
- our strategy to become a global biopharmaceutical company;
- our plan to conduct a confirmatory drug-drug interaction study;
- our plan to conduct a study with pediatric patients;
- and
- our belief that the annualized pricing for voclosporin for LN could range between US\$45,000 and US\$100,000.

Such statements reflect our 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 management, as at the date of such statements, are inherently subject to significant business, economic, competitive, political, regulatory, legal, scientific and social uncertainties and contingencies, many of which, with respect to future events, are subject to change. The factors and assumptions used by management to develop such forward-looking statements include, but are not limited to:

- the assumption that we will be able to obtain approval from regulatory agencies on executable development programs with parameters that are satisfactory to us;
- the assumption that recruitment to clinical trials will occur as projected;
- the assumption that we will successfully complete our clinical programs on a timely basis, including conducting the required AURORA clinical trial and meet regulatory requirements for approval of marketing authorization applications and new drug approvals, as well as favourable product labeling;
- the assumption that the planned studies will achieve positive results;
- the assumptions regarding the costs and expenses associated with our clinical trials;
- the assumption that regulatory requirements and commitments will be maintained;
- the assumption that we will be able to meet GMP standards and manufacture and secure a sufficient supply of voclosporin on a timely basis to successfully complete the development and commercialization of voclosporin;
- the assumptions on the market value for the LN program;
- the assumption that our patent portfolio is sufficient and valid;
- the assumption that the USPTO will issue a new patent for its dosing protocol once applicable steps have been followed and fees paid;
- the assumption that we will be able to extend our patents to the fullest extent allowed by law, on terms most beneficial to us;
- the assumptions on the market;
- the assumption that there is a potential commercial value for other indications for voclosporin;
- the assumption that market data and reports reviewed by us are accurate;
- the assumption that another company will not create a substantial competitive product for Aurinia's LN business without violating Aurinia's intellectual property rights;
- the assumptions on the burn rate of Aurinia's cash for operations;
- the assumption that our current good relationships with our suppliers, service providers and other third parties will be maintained;
- the assumption that we will be able to attract and retain a sufficient amount of skilled staff;
- and/or
- the assumptions relating to the capital required to fund operations through AURORA clinical trial results and regulatory submission.

It is important to know that:

- actual results could be materially different from what we expect if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we 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 our 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 depend 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 our business.

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

Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to differ materially from any assumptions, further results, performance or achievements expressed or implied by such forward-

looking statements. Important factors that could cause such differences include, among other things, the following:

- the need for additional capital in the future to continue to fund our development programs and commercialization activities, and the effect of capital market conditions and other factors on capital availability;
- competition;

Table of Contents

- difficulties, delays, or failures we may experience in the conduct of and reporting of results of our clinical trials for voclosporin;
- difficulties in meeting GMP standards and the manufacturing and securing of a sufficient supply of voclosporin on a timely basis to successfully complete the development and commercialization of voclosporin;
- difficulties, delays or failures in obtaining regulatory approvals for the initiation of clinical trials;
- difficulties in gaining alignment among the key regulatory jurisdictions, EMA, FDA and PMDA, which may require further clinical activities;
- difficulties, delays or failures in obtaining regulatory approvals to market voclosporin;
- not being able to extend our patent portfolio for voclosporin;
- our patent portfolio not covering all of our proposed uses of voclosporin;
- the uncertainty that the FDA will approve the use of voclosporin for LN and that the label for such use will follow the dosing protocol pursuant to the Notice of Allowance;
- difficulties we may experience in completing the development and commercialization of voclosporin;
- the market for the LN business may not be as we have estimated;
- insufficient acceptance of and demand for voclosporin;
- difficulties obtaining adequate reimbursements from third party payors;
- difficulties obtaining formulary acceptance;
- competitors may arise with similar products;
- product liability, patent infringement and other civil litigation;
- injunctions, court orders, regulatory and other enforcement actions;
- we may have to pay unanticipated expenses, and/or estimated costs for clinical trials or operations may be underestimated, resulting in our having to make additional expenditures to achieve our current goals;
- difficulties, restrictions, delays, or failures in obtaining appropriate reimbursement from payors for voclosporin; and/or
- difficulties we may experience in identifying and successfully securing appropriate vendors to support the development and commercialization of our product.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we 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 Factors" section of this AIF. Although we believe 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 we can give no assurance that such expectations will prove to be correct.

OVERVIEW

Corporate structure

Aurinia is a late clinical stage biopharmaceutical company focused on developing and commercializing therapies to treat targeted patient populations that are suffering from serious diseases with a high unmet medical need. We are currently developing voclosporin, an investigational drug, for the potential treatment of LN, DES and FSGS.

Our head office is located at #1203-4464 Markham Street, Victoria, British Columbia V8Z 7X8. Aurinia 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). Our Common Shares are currently listed and traded on the NASDAQ under the symbol "AUPH" and on the TSX under the symbol "AUP".

We have two wholly-owned subsidiaries: Aurinia Pharma U.S., Inc., (Delaware incorporated) and Aurinia Pharma Limited (United Kingdom incorporated).

Our By-Law No. 2 was amended at a shareholder's meeting held on August 15, 2013 to include provisions requiring advance notice for any nominations of directors by shareholders, which are described further in our most recent information circular.

BUSINESS OF THE COMPANY

We are currently developing voclosporin, an investigational drug, for the potential treatment of LN, DES and FSGS. Voclosporin is a next generation CNI which has clinical data in over 2,400 patients across multiple indications. It has also been previously studied in kidney rejection following transplantation, psoriasis and in various forms of uveitis (an ophthalmic disease).

The topical formulation of voclosporin, VOS, is an aqueous, preservative free nanomicellar solution intended for use in the treatment of DES. Studies have been completed in rabbit and dog models. A single Phase 1 study and a Phase 2a head-to head study have also been completed in healthy volunteers and patients with DES. VOS has IP protection until 2031.

Table of Contents

Legacy CNIs have demonstrated efficacy for a number of conditions, including transplant, DES and other autoimmune diseases; however, side effects exist which can limit their long-term use and tolerability. Some clinical complications of legacy CNIs include hypertension, hyperlipidemia, diabetes, and both acute and chronic nephrotoxicity.

Voclosporin is an immunosuppressant, with a synergistic and dual mechanism of action that has the potential to improve near- and long-term outcomes in LN when added to MMF, although not approved for such, the current standard of care for LN. By inhibiting calcineurin, voclosporin reduces cytokine activation and blocks interleukin IL-2 expression and T-cell mediated immune responses. Voclosporin also potentially stabilizes disease modifying podocytes, which protects against proteinuria. Voclosporin is made by a modification of a single amino acid of the cyclosporine molecule. This modification may result in a more predictable pharmacokinetic and pharmacodynamic relationship, an increase in potency, an altered metabolic profile, and easier dosing without the need for therapeutic drug monitoring. Clinical doses of voclosporin studied to date range from 13 - 70 mg BID. 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, psoriasis, rheumatoid arthritis, and for LN in Japan.

We believe that voclosporin possesses pharmacologic properties with the potential to demonstrate best-in-class differentiation with first-in-class regulatory approval status for the treatment of LN outside of Japan.

Based on published data, we believe the key potential benefits of voclosporin in the treatment of LN and other podocytopathies are as follows:

- increased potency compared to CsA, allowing lower dosing requirements and fewer off target effects;
- limited inter and intra patient variability, allowing for easier dosing without the need for therapeutic drug monitoring;
- less cholesterolemia and triglyceridemia than CsA; and
- limited incidence of glucose intolerance and diabetes at therapeutic doses compared to tacrolimus.

Our target launch date for voclosporin as a treatment for LN is early 2021.

STRATEGY

Our business strategy is to optimize the clinical and commercial value of voclosporin and become a global biopharma company with a focused renal and autoimmune franchise. This includes the expansion of a potential renal franchise with additional renal indications and the exploitation of voclosporin in novel formulations for treatment of autoimmune related disorders.

We have strategically developed a plan to expand our voclosporin renal franchise to include FSGS. Additionally, we are also furthering development of VOS for the treatment of DES. The advancement of these new indications, in addition to LN, represents an expansion of our pipeline and commercial opportunities.

The key elements of our corporate strategy include:

- advancing voclosporin through the AURORA Phase 3 clinical trial with anticipated completion of this trial in the fourth quarter of 2019;
- conducting a Phase 2 proof of concept study for the additional renal indication of FSGS; and
- conducting additional studies of VOS, while assessing mechanisms to maximize shareholder value through both clinical and business development initiatives.

LUPUS NEPHRITIS

LN is an inflammation of the kidney caused by SLE and represents a serious manifestation of SLE. SLE is a chronic, complex and often disabling disorder. SLE is highly heterogeneous, affecting a wide range of organs and tissue systems. Unlike SLE, LN has straightforward disease measures (readily assessable and easily identified by specialty treaters) where an early response correlates with long-term outcomes, measured by proteinuria. In patients with LN, renal damage results in proteinuria and/or hematuria and a decrease in renal function as evidenced by reduced eGFR, and increased serum creatinine levels. eGFR is assessed through the Chronic Kidney Disease Epidemiology Collaboration equation. Rapid control and reduction of proteinuria in LN patients measured at six months shows a reduction in the need for dialysis at 10 years (*Chen et al., Clin J. Am Soc Neph., 2008*). LN can be debilitating and costly and if poorly controlled, can lead to permanent and irreversible tissue damage within the kidney. Recent literature suggests severe LN progresses to ESRD, within 15 years of diagnosis in 10%-30% of patients, thus making LN a serious and potentially life-threatening condition. SLE patients with renal damage have a 14-fold increased risk of premature death, while SLE patients with ESRD have a greater than 60-fold increased risk of premature death. Mean annual cost for patients (both direct and indirect) with SLE (with no nephritis) have been estimated to exceed US\$20,000 per patient, while the mean annual cost for patients (both direct and indirect) with LN who progress to intermittent ESRD have been estimated to exceed US\$60,000 per patient (*Carls et al., JOEM., Volume 51, No. 1, January 2009*).

DES

DES, or dry eye disease, or keratoconjunctivitis sicca, is characterized by irritation and inflammation that occurs when the eye's tear film is compromised by reduced tear production, imbalanced tear composition, or excessive tear evaporation. The impact of DES ranges from subtle, yet constant eye irritation to significant inflammation and scarring of the eye's surface. Discomfort and pain resulting from DES can reduce quality of life and cause difficulty reading, driving, using computers and performing daily activities. DES is a chronic disease. There are currently two FDA approved therapies for the treatment of dry eye; however, there is opportunity for potential improvement in the effectiveness by

[Table of Contents](#)

enhancing tolerability and onset of action and alleviating the need for repetitive dosing. The disease is estimated to affect greater than 20 million people in the United States (*Market Scope, 2010 Comprehensive Report on The Global Dry Eye Products Market*).

FSGS

FSGS is a rare disease that attacks the kidney's filtering units (glomeruli) causing serious scarring which leads to permanent kidney damage and even renal failure. FSGS is one of the leading causes of NS and is identified by biopsy and proteinuria. NS is a collection of signs and symptoms that indicate kidney damage, including: large amounts of protein in urine; low levels of albumin and higher than normal fat and cholesterol levels in the blood, and edema. Similar to LN, early clinical response which can be measured by reduction of proteinuria in addition to maintaining podocyte structural and functional integrity, is thought to be critical to long-term kidney health in patients with FSGS.

FSGS is likely the most common primary glomerulopathy leading to ESRD. The incidence of FSGS and ESRD due to FSGS are increasing as time goes on. Precise estimates of incidence and prevalence are difficult to determine. According to NephCure Kidney International, more than 5,400 patients are diagnosed with FSGS every year; however, this is considered an underestimate because a limited number of biopsies are performed. The number of FSGS cases are rising more than any other cause of NS and the incidence of FSGS is increasing through disease awareness and improved diagnosis. FSGS occurs more frequently in adults than in children and is most prevalent in adults 45 years or older. FSGS is most common in people of African American and Asian descent. It has been shown that the control of proteinuria is important for long-term dialysis-free survival of these patients. Currently, there are no approved therapies for FSGS in the United States or the EU.

In June 2018, we initiated a Phase 2 proof-of-concept study in FSGS, which is an open-label study of approximately 20 treatment-naive patients. The primary outcome measure for the study is the proportion of subjects achieving complete or PR at six months. Complete remission is defined as UPCR of ≤ 0.3 mg/mg, and PR is defined as 50% reduction in UPCR. This study is ongoing.

LN STANDARD OF CARE

While at Apreva, certain members of Aurinia's management team executed the ALMS study which established CellCept® as the current standard of care for treating LN. The ALMS study was published in 2009 in the *Journal of the American Society of Nephrology* and in 2011 in the *New England Journal of Medicine*.

The American College of Rheumatology recommends that intravenous cyclophosphamide or MMF/CellCept® be used as first-line immunosuppressive therapy for LN. Despite their use, the ALMS study showed that the vast majority of patients failed to achieve CR, and almost half failed to have a renal response at 24 weeks for both of these therapeutics. Based upon the results of the ALMS study, we believe that a better solution is needed to improve renal response rates for LN.

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

Based on available data from the AURA clinical trial, we believe that voclosporin has the potential to address critical needs for LN by controlling active disease rapidly, lowering the overall steroid burden, and doing so with a convenient oral twice-daily treatment regimen. Currently, there are no approved therapies for LN in the United States or the European Union.

MARKET POTENTIAL AND COMMERCIAL CONSIDERATIONS

We have conducted market research including claims database reviews (where available) and physician based research. Our physician research included approximately 900 rheumatologists and nephrologists across the United States, Europe and Japan to better define the potential market size, estimated pricing and treatment paradigms in those jurisdictions. Using the U.S. MarketScan® database (with approximately ~180,000,000 insured lives in the United States) there were 445,000 SLE patients in the database (between January 2006 and June 2016) based on specific SLE diagnosis codes. The National Institute of Diabetes and Digestive and Kidney Diseases estimates that up to 50% of adults with SLE are diagnosed with kidney disease at some point in their journey with lupus. Using claims database research and physician research, we believe the diagnosed range of LN patients to be approximately 125,000 to 180,000 in the United States and 150,000 to 215,000 for Europe and Japan combined. According to our research, in the United States, Europe and Japan, one in five LN patients are thought to be undiagnosed due to referring physicians being inefficient and inaccurate in diagnosing the condition.

Similar to other autoimmune disorders, LN is a flaring and remitting disease. The destructive disease cycle people with LN go through is depicted below. The disease cycles from being in remission to being in flare, achieving PR and being back in remission. Treatment objectives between LN and other autoimmune diseases are remarkably similar. In other autoimmune conditions such as Multiple Sclerosis, Crohn's, Rheumatoid Arthritis and SLE, physicians' goals are to induce/maintain a remission of disease, decrease frequency of hospital or ambulatory care visits and limit long term disability. In LN specifically, physicians are trying to avoid further kidney damage, dialysis, renal transplantation, and death. According to a physician survey, the frequency of LN flares amongst treated patients was approximately every 14 months across the United States and Europe. The ability to get patients into remission quickly correlates with better long-term kidney outcomes as noted above.



The population of people with LN will be in different cycles of their disease at any one time. Physicians currently use existing LN standard of care including immunosuppressants and high dose steroids to treat people with LN throughout the disease cycles including induction and maintenance phases. By studying voclosporin on top of an existing standard of care we are not seeking to displace current accepted treatment patterns. We feel that being additive to an existing standard of care in addition to the product being administered orally versus via infusion or injection can support a more rapid market adoption if approved.

Current annualized pricing (based on wholesale acquisition costs published by AnalySource® Reprinted with permission by First Databank, Inc. (All rights reserved. © 2018)) for the treatments of other more prevalent autoimmune conditions such as Multiple Sclerosis, Crohn's, Rheumatoid Arthritis and SLE ranges from US\$45,000 to US\$100,000 in the United States. Wholesale acquisition cost is the manufacturer's published catalog or list price for a drug product to wholesalers and may not reflect actual prices paid after any rebates/ discounts. We have conducted pricing research that studied a similar pricing range with payers and physicians and believe that pricing in this range may be achievable for voclosporin in the United States. Pricing for other autoimmune conditions are lower in Europe and Japan than they are in the United States driven by the specific country's pricing and reimbursement processes. We expect that will be the case for voclosporin.

VOCLOSPORIN BACKGROUND

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 CsA. 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

We believe that voclosporin has shown a number of key potential clinical benefits over the existing commercially available CNIs (tacrolimus & CsA). Firstly, CNI assay results have indicated that voclosporin is approximately four times more potent than its parent molecule CsA, which would indicate an ability to give less drug and produce fewer potentially harmful metabolites. Secondly, CsA inhibits the enterohepatic recirculation of 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 important fact to consider as most patients being treated with voclosporin for LN will already be taking MMF. Furthermore, PK-PD analysis indicate lower PK-PD variability for voclosporin versus tacrolimus or CsA, to the extent that we believe 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 CsA in the treatment of psoriasis, CsA 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.

We believe that voclosporin can be differentiated from the older CNIs and thus possess a unique position in the market as it relates to inducing remission in patients suffering from LN.

[Table of Contents](#)

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 standard of care 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.

Voclosporin Development History

More than 2,400 patients have been dosed with voclosporin in clinical trials including studies where voclosporin was compared to placebo or active control. The safety and tolerability profile of the drug therefore is well characterized. Phase 2 or later clinical studies that have been completed include studies in the following indications:

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

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

Uveitis: Multiple studies in various forms of non-infectious uveitis were completed by Lux, one of our former licensees, indicating mixed efficacy. In all but one of the studies, completed by the licensee, an impact on disease activity was shown in the voclosporin group. However, achievement of the primary end-points in multiple studies could not be shown. Uveitis is a notoriously difficult disease to study due to the heterogeneity of the patient population and the lack of validated clinical end-points. However, in all of the uveitis studies completed, the safety results were consistent, and the drug was well tolerated. We successfully terminated our licensing agreement with Lux on February 27, 2014. In conjunction with this termination we have retained a portfolio of additional patents that Lux had been prosecuting that are focused on delivering effective concentrations of voclosporin to various ocular tissues.

RECENT DEVELOPMENTS

PATENT NOTICE OF ALLOWANCE

On February 25, 2019, we announced that we had received a Notice of Allowance from the USPTO for claims directed at our novel voclosporin dosing protocol for LN (U.S. patent application 15/835,219, entitled "PROTOCOL FOR TREATMENT OF LUPUS NEPHRITIS").

The allowed claims broadly cover the novel voclosporin *individualized flat-dosed pharmacodynamic treatment protocol* adhered to and required in both the previously reported Phase 2 AURA-LV trial and our ongoing Phase 3 confirmatory AURORA trial. Notably, the allowed claims cover a method of modifying the dose of voclosporin in patients with LN based on patient specific pharmacodynamic parameters.

This Notice of Allowance concludes a substantive examination of the patent application at the USPTO, and after administrative processes are completed and fees are paid, is expected to result in the issuance of a U.S. patent with a term extending to December 2037. If the FDA approves the use of voclosporin for LN and the label for such use follows the dosing protocol under the Notice of Allowance, the issuance of this patent will expand the scope of intellectual property protection for voclosporin, which already includes robust manufacturing, formulation, synthesis and composition of matter patents.

We have also filed for protection of this subject matter under the PCT and have the option of applying for similar protection in the member countries thereof. This may lead to the granting of corresponding claims in the treaty countries which include all the major global pharmaceutical markets.

[Table of Contents](#)

DES

On January 22, 2019 we released results for our exploratory Phase 2a head-to-head study evaluating the efficacy, safety and tolerability of VOS versus Restasis® (cyclosporine ophthalmic emulsion) 0.05% for the treatment of DES. The study was initiated in July of 2018 and full enrollment was achieved in the fourth quarter of 2018. We believe CNIs are a mainstay of treatment for DES. The goal of this program is to develop a best-in class treatment option.

In this exploratory Phase 2a study:

- VOS showed statistical superiority to Restasis® on FDA-accepted objective signs of DES
- 42.9% of VOS subjects vs 18.4% of Restasis® subjects (p=.0055) demonstrated ≥ 10 mm improvement in STT at Week 4
- Primary endpoint of drop discomfort at 1-minute on Day 1 showed no statistical difference between VOS and Restasis®, as both exhibited low drop discomfort scores, and both drugs were well-tolerated.

On the key pre-specified secondary endpoints of Schirmer Tear Test/STT (an objective measure of tear production), and Fluorescein Corneal Staining/FCS (an objective measure of structural damage to the cornea), which are FDA-accepted efficacy endpoints, VOS showed rapid and statistically significant improvements over Restasis® at Week 4 (STT: p=.0051; FCS: p=.0003).

This 100-patient, double-masked, head-to-head study was designed to evaluate the efficacy, safety and tolerability of VOS versus Restasis® in subjects with DES. Both arms of the study received either VOS or Restasis® (1:1) administered twice daily, in both eyes, for 28 days. Key pre-specified secondary endpoints, which are FDA-accepted endpoints, include STT, FCS, and assessments of dry eye symptoms. Improvements in STT and FCS are considered by regulators to be two of the most clinically meaningful measures of efficacy in this disease.

4-Week Pre-Specified Efficacy Endpoints (Signs)*	VOS	Restasis®	p-value vs. Restasis®
Schirmer Tear Test (STT) <i>(mm LS mean increase from baseline)</i>	8.6	3.3	.0051
% of subjects showing ≥ 10 mm improvement in STT <i>(basis of FDA approval for other CNIs and an improvement is considered to be clinically significant)</i>	42.9%	18.4%	.0055
Fluorescein Corneal Staining (FCS) <i>(reduction in staining is clinically significant)</i>	-2.2	-0.2	.0003

* worst eye

Both treatment arms also demonstrated substantial and statistically significant improvements on the Symptom Assessment in Dry Eye (SANDE) score from baseline to Week 4.

No serious adverse events (SAE) were reported in the study, and there were no unexpected safety signals. All adverse events (AEs) were mild to moderate and the majority of patients had no AEs. There were five more patients with mild to moderate AEs in the VOS vs Restasis arm which were typical of complaints from DES patients.

Based on this data, we plan to aggressively advance VOS for the treatment of DES. Our pursuit of further development of VOS provides the Company with an enhanced pipeline that further capitalizes on the differentiating features of voclosporin and positions us for substantial growth and measured diversification.

VOS, had previously shown evidence of efficacy in our partnered canine studies and in a small human Phase 1 study (n=35), supporting its development for the treatment of DES. Completed preclinical and human Phase 1b studies using our nanomicellar VOS formulation have shown encouraging results in terms of delivery of active drug to the target tissues of the eye. The nanomicellar formulation enables high concentrations of voclosporin to be incorporated into a preservative-free solution for local delivery to the ocular surface. This has been shown to potentially improve efficacy, dosing frequency and tolerability versus the current treatments for DES. We therefore believe VOS has a differentiated product profile with long patent life that has the potential to compete in the multi-billion-dollar human prescription dry eye market.

Animal safety toxicology studies were previously completed in rabbit and dog models, and additional animal safety toxicology studies are either being currently conducted or in the planning stage for 2019.

NOVEMBER 2018 ATM

On November 30, 2018 we entered into an open market sale agreement with Jefferies LLC pursuant to which Aurinia would be able to, from time to time, sell, through at-the-market (“ATM”) offerings, Common Shares that would have an aggregate offering price of up to US\$30 million. Aurinia 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 supplemented Aurinia’s short form base shelf prospectus dated March 26, 2018, and Aurinia’s shelf registration statement on Form F-10 dated March 26, 2018, declared effective on March 29, 2018.

Subsequent to year-end, we sold 4.61 million Common Shares and received gross proceeds of US\$30 million at a weighted average price of US\$6.55 pursuant this agreement. We incurred share issue costs of US\$1.17 million including a 3% commission of US\$900,000 and professional and filing fees of US\$270,000 directly related to the ATM offering. Sales in the ATM offering were only conducted in the United States through NASDAQ at market prices.

THREE YEAR HISTORY

CLINICAL AND CORPORATE DEVELOPMENTS IN 2018

AURORA clinical trial

We achieved a significant milestone on September 25, 2018 with the completion of enrollment for our AURORA Phase 3 clinical trial. The target enrollment of 324 patients was surpassed due to high patient demand with 358 LN patients randomized in sites across 27 countries. AURORA is a 56-week trial (52-week primary endpoint and a four-week follow-up period). We expect to have top-line data for this trial in late 2019.

We believe the totality of data from both the AURORA and AURA clinical trials can potentially serve as the basis for a NDA submission with the FDA following a successful completion of the AURORA clinical trial. Under voclosporin's fast-track designation we intend to utilize a rolling NDA process which will allow us to begin the submission process following a positive pre-NDA meeting with the FDA, which we anticipate will occur in the first quarter of 2020. To that end we are actively preparing the non-clinical and Chemistry, Manufacturing and Controls modules required for the NDA submission. Our current plan is to complete the NDA submission, including the clinical module, in the second quarter of 2020 and therefore we do not expect any delay in our originally planned regulatory timelines.

The AURORA clinical trial is a global double-blind, placebo-controlled study, (designed with target enrollment of 324 patients) to evaluate whether voclosporin added to background therapy of CellCept®/MMF can increase overall renal response rates in the presence of low dose steroids.

Patients were randomized 1:1 to either of: (i) 23.7 mg voclosporin BID and MMF, or (ii) MMF and placebo, with both arms receiving a rapid oral corticosteroid taper. As in the AURA clinical trial, the study population in AURORA is comprised of patients with biopsy proven active LN who will be evaluated on the primary efficacy endpoint of CR, or renal response, at 52 weeks, a composite which includes:

- UPCR of ≤ 0.5 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 44-52) and;
- no administration of rescue medications.

Patients completing the AURORA trial have the option to roll over into a 104-week blinded extension trial (the "AURORA 2 extension trial"). During the second quarter ended June 30, 2018, the first patients commenced rolling over into the AURORA 2 extension trial. Enrollment in this study continues to increase as additional patients complete AURORA. The data from the AURORA 2 extension trial will allow us to assess the long-term benefit/risk of voclosporin in LN patients, however, this study is not a requirement for potential regulatory approval for voclosporin. Data from the AURORA 2 extension trial assessing long-term outcomes in LN patients should be valuable in a post-marketing setting and for future interactions with various regulatory authorities.

In order to enhance and complete the clinical dossier, we commenced a confirmatory drug-drug interaction study between voclosporin and MMF in the second half of 2018. Legacy CNIs, CsA, impact MMF concentrations, and our goal with this short study is to confirm the insignificant impact of voclosporin upon MMF concentrations that were previously seen in a renal transplant study. We are conducting the drug-drug interaction study with SLE patients and are currently in the process of enrolling patients with the study expected to be completed in 2019. In this study, patients will be monitored for a period of two weeks. We believe the results of this study will add to our knowledge of voclosporin in a MMT approach and should have no impact on our submission time-line or the potential approval of voclosporin.

We also plan to evaluate voclosporin in pediatric patients after a potential FDA approval of an indication for adults with LN.

New Voclosporin Indication - FSGS

Similar to LN, integrity of the podocyte is a key feature of disease progression in FSGS. The disease has straightforward disease outcomes where an early clinical response correlates with long-term outcomes, measured by proteinuria. Based on our clinical data in LN which demonstrated that voclosporin decreased proteinuria, we believe voclosporin has the potential to benefit patients with FSGS. Our clinical data in LN demonstrated that voclosporin decreased proteinuria. Furthermore, voclosporin appears to demonstrate a more predictable pharmacology and an improved lipid and metabolic profile over legacy calcineurin inhibitors, which have shown efficacy in treating autoimmune disorders similar to those we are targeting.

We submitted our IND to the FDA in the first quarter of 2018. We received agreement from the FDA with regards to the guidance we provided on this study and the IND is now active. Our Phase 2 proof-of-concept study in FSGS which is an open-label study of approximately 20 treatment-naive patients was initiated in June 2018. As we are essentially enrolling newly diagnosed patients and this is a rare disease, enrollment is slower than originally expected. We believe enrollment could take up to an additional twelve months from the current date, however, we plan to have interim data readouts throughout the course of the study, once sufficient patients are enrolled. As we have been focused on LN, expanding our scope to include other proteinuric renal diseases is synergistic with our current strategy and long-term vision.

Corporate Developments

On February 21, 2018 we appointed Michael Hayden, CM, OBC, MB, ChB, PhD, FRCP (C), FRSC to our Board. Dr. Hayden was most recently the President of Global R&D and CSO at Teva Pharmaceutical Industries Ltd. Dr. Hayden is the co-founder of three biotechnology companies,

[Table of Contents](#)

including Aspreva, and currently sits on several boards. Dr. Hayden is a celebrated researcher, having focused his research primarily on genetic diseases.

On February 7, 2018 we appointed Joseph P. "Jay" Hagan to our Board. Mr. Hagan is currently the President and CEO of Regulus Therapeutics, having previously held the positions of COO, Principal Financial Officer and Principal Accounting Officer.

We announced on November 8, 2018 that Richard M. Glickman, Aurinia's Chairman and CEO, intends to retire from his position once a suitable replacement is identified and appointed. The Board has retained an executive search firm and initiated a search for his successor. Under his direction, the Company has delivered on its key milestones and evolved into a patient-centric, late-stage clinical company with investigational drugs addressing multiple indications across the global immunology market.

CLINICAL AND CORPORATE DEVELOPMENTS IN 2017

Initiation of AURORA clinical trial

We achieved a significant milestone in the second quarter of 2017 with the initiation of our single, AURORA clinical trial with patients randomized on active treatment.

We believe the totality of data from both the AURORA and AURA clinical trials, if the AURORA results confirm the AURA data, can potentially serve as the basis for a NDA submission following a successful completion of the AURORA clinical trial.

AURA-LV 48-Week Results

On April 20, 2017, we presented in-depth 48-week results from our global AURA clinical trial in LN during the late-breaking session at National Kidney Foundation 2017 Spring Clinical Meetings in Orlando, Florida. These were updated results from the top-line remission rate results announced on March 1, 2017 and are summarized in the table below. In addition to the trial meeting its CR and PR endpoints at 48 weeks, all pre-specified secondary endpoints that had been analyzed to April 20, 2017 were also met at 48 weeks. These pre-specified endpoints included: time to CR and PR (speed of remission); reduction in SLEDAI score; and reduction in UPCR over the 48-week treatment period.

Each arm of the trial included the current standard of care of MMF as background therapy and a rapid steroid taper to 5mg/day by week 8 and 2.5mg/day by week 16. Both doses of voclosporin at 48 weeks demonstrated continued improvement over the control group across multiple dimensions. Notably, the voclosporin groups demonstrated statistically significantly improved speed and rates of CR and PR. Of the patients that achieved CR at 24 weeks, in the low-dose voclosporin group, 100% remained in CR at 48 weeks, which demonstrates durability of clinical response. Proteinuria levels and reduction in SLEDAI scores, which include non-renal measures of lupus activity, also continued to significantly separate over time versus the control group.

The 24 and 48-week efficacy results are summarized below:

Endpoint	Treatment	24 weeks	P-value*	48 weeks	P-value*
Complete Remission (CR)	23.7mg VCS BID	33%	<i>p</i> =.045	49%	<i>p</i> <.001
	39.5mg VCS BID	27%	<i>p</i> =.204	40%	<i>p</i> =.026
	Control Arm	19%	NA	24%	NA
Partial Remission (PR)	23.7mg VCS BID	70%	<i>p</i> =.007	68%	<i>p</i> =.007
	39.5mg VCS BID	66%	<i>p</i> =.024	72%	<i>p</i> =.002
	Control Arm	49%	NA	48%	NA
Time to CR (TTCR) [median]	23.7mg VCS BID	19.7 weeks	<i>p</i> <.001	19.7 weeks	<i>p</i> <.001
	39.5mg VCS BID	23.4 weeks	<i>p</i> =.001	23.4 weeks	<i>p</i> <.001
	Control Arm	NA	NA	NA	NA
Time to PR (TTPR) [median]	23.7mg VCS BID	4.1 weeks	<i>p</i> =.002	4.3 weeks	<i>p</i> =.005
	39.5mg VCS BID	4.4 weeks	<i>P</i> =.003	4.4 weeks	<i>p</i> =.002
	Control Arm	6.6 weeks	NA	6.6 weeks	NA
SLEDAI Reduction (non-renal lupus)	23.7mg VCS BID	-6.3	<i>p</i> =.003	-7.9	<i>p</i> <.001
	39.5mg VCS BID	-7.1	<i>p</i> =.003	-8.3	<i>p</i> <.001
	Control Arm	-4.5	NA	-5.3	NA
Reduction in UPCR	23.7mg VCS BID	-3.769 mg/mg	<i>p</i> <.001	-3.998 mg/mg	<i>p</i> <.001
	39.5mg VCS BID	-2.792 mg/mg	<i>p</i> =.006	-2.993 mg/mg	<i>p</i> =.008
	Control Arm	-2.216 mg/mg	NA	-2.384 mg/mg	NA

[Table of Contents](#)

The results of the AURA clinical trial at 48 weeks demonstrate the highest CR rate of any global LN study of which we are aware, although we note that the criteria to measure remission differs among various studies. The below chart compares the results of the AURA clinical trial vs. the other global LN studies of which we are aware.

Name of Global Study	Number of weeks	Criteria to Measure Remission and Response Rate	Results		
Efficacy and Safety of Ocrelizumab in Active Proliferative LN	48 weeks	UP:CR(gm/gm) < .5 SCr ≤ 25% increase from baseline Steroid taper (not enforced)	Control = 34.7% LD OCR = 42.7% (NS) HD OCR = 32.5% (NS)		
Mycophenolate Mofetil <i>versus</i> Cyclophosphamide for Induction Treatment of LN	24 weeks	UP:CR(gm/gm) ≤ .5 Normal eGFR Normal Urinalysis Steroid taper (not enforced)	MMF = 8.6% (NS) IVC = 8.1% (NS)		
Efficacy and Safety of Abatacept in LN	52 weeks	UP:CR(gm/gm) ≤ .26 eGFR within 10% of screening/baseline Normal Urinalysis Criteria to be met on 2 successive visits No mandated steroid taper	Control = 8.0% LD ABT = 11.1% (NS) HD ABT = 9.1% (NS)		
AURA-LV: Aurinia Urine Protein Reduction in Active LN Study	24 and 48 weeks	UP:CR(gm/gm) ≤ .5 No decrease in eGFR ≥ 20% No use of rescue medications Forced steroid taper	<table border="0"> <tr> <td><u>24 weeks</u> Control = 19.3% LD Voc=32.6% (p=.045) HD Voc = 27.3% (NS)</td> <td><u>48 weeks</u> Control = 23.9% LD Voc = 49.4% (p<.001) HD Voc = 39.8% (p=.026)</td> </tr> </table>	<u>24 weeks</u> Control = 19.3% LD Voc=32.6% (p=.045) HD Voc = 27.3% (NS)	<u>48 weeks</u> Control = 23.9% LD Voc = 49.4% (p<.001) HD Voc = 39.8% (p=.026)
<u>24 weeks</u> Control = 19.3% LD Voc=32.6% (p=.045) HD Voc = 27.3% (NS)	<u>48 weeks</u> Control = 23.9% LD Voc = 49.4% (p<.001) HD Voc = 39.8% (p=.026)				

No new safety signals were observed with the use of voclosporin in LN patients, and voclosporin was well-tolerated over a 48-week period. The overall safety profile is consistent with the expectations for the class of drug, the patient population and concomitant therapies. Thirteen (13) deaths were reported during the AURA clinical trial, a pattern which is consistent with other global active LN studies. Eleven (11) of the thirteen (13) deaths occurred at sites with compromised access to standard of care, and patients who died had a statistically different clinical baseline picture, demonstrating a more severe form of LN, potential comorbid conditions, and poor nutrition. Furthermore, in the voclosporin arms, the renal function as measured by corrected eGFR was stable and not significantly different from the control arm after 48 weeks of treatment. Mean blood pressure was also similar between all treatment groups.

A summary of TEAEs, study withdrawals and drug discontinuations are below, which are consistent with other clinical trials evaluating immunosuppressive therapies.

TEAEs, Drug Discontinuation & Study Withdrawals	Control N=88 n (%)	VCS 23.7 mg BID N=89 n (%)	VCS 39.5mg BID N=88 n (%)
Any TEAE	78 (88.6)	82 (92.1)	85 (96.6)
Any Serious TEAE	17 (19.3)	25 (28.1)	22 (25.0)
Any TEAE with Outcome of Death ¹	4 (4.5)	10 (11.2)	2 (2.3)
Any Treatment-Related TEAE	15 (17.0)	45 (50.6)	55 (62.5)
Any Serious Treatment-Related TEAE	1 (1.1)	4 (4.5)	7 (8.0)
Any AE leading to study drug discontinuation	9 (10.2)	16 (18.0)	14 (15.9)
Any AE leading to study drug discontinuation (excluding deaths)	8 (9.1)	11 (12.4)	13 (14.8)
Study Withdrawals	18 (20)	16 (18.0)	8 (9.1)

1. Data includes three placebo-randomized subjects that died post-study completion.

On June 4, 2017 and June 14, 2017, we presented additional data from the AURA trial in LN during ERA-EDTA 2017 and EULAR 2017.

As previously reported, treatment with low dose voclosporin showed statistically improved efficacy over the control arm at 24 and 48 weeks. The data presented at ERA-EDTA demonstrated this improved efficacy was attained while maintaining stable serum magnesium, potassium and blood pressure levels. Well-known side effects with other calcineurin inhibitors at their effective dose include hypomagnesemia and hyperkalemia, which are associated with renal impairment and require monitoring or intervention.

The data presented at EULAR 2017 demonstrated that over the course of the 48-week trial, patients on voclosporin stayed in remission approximately twice the amount of time as those in the control group.

[Table of Contents](#)

The analysis of additional data after April 20, 2017 identified that two non-key secondary endpoints: urine sediment, which describes analysis of active urinary sediment at each visit; and comparison of C3 and C4 levels between study arms, did not demonstrate statistical significance between arms. The urine sediment endpoint was not statistically different as there was too few data to demonstrate a difference. C3 and C4 levels are non-specific markers of general lupus disease activity. Rises in C3 and C4 were seen in all arms indicating disease improvement though no significant difference was observed between treatment arms.

To summarize, in addition to the trial meeting its CR and PR endpoints at 48 weeks, all key pre-specified secondary endpoints were also met at 48 weeks.

AURORA to serve as basis for regulatory submissions in major markets-US, Europe, and Japan

On April 6, 2017, we announced the outcome of discussions with both the EMA and the PMDA in Japan regarding the development of voclosporin for the treatment of active LN. Pursuant to these discussions, we believe that the confirmatory data that can be generated from the AURORA clinical trial and the recently completed AURA clinical trial should support regulatory submissions in the US, Europe and Japan.

48-week data from open-label AURION clinical trial

On March 27, 2017, we presented the 48-week results from the open-label AURION clinical trial at the 12th International Congress on Systemic Lupus Erythematosus and the 7th Asian Congress on Autoimmunity jointly in Melbourne, Australia.

The trial successfully achieved its primary objective by demonstrating that early biomarker response in active LN patients can be a significant predictor of renal response at 24 and 48 weeks. In the per protocol analysis at 48 weeks, 71% of subjects (n=5/7) on treatment remain in CR as measured by a UPCR of $\leq 0.5\text{mg/mg}$, eGFR within 20% of baseline and concomitant steroid dose of $<5\text{mg/day}$. A 25% reduction in UPCR at week eight was found to be highly predictive of achieving renal response at 24 and 48 weeks. Conversely, if C3 and C4 do not normalize by week 8, then a renal response at week 24 and 48 is highly unlikely. Anti-dsDNA was not found to be a useful biomarker in predicting long-term response in LN patients.

No new safety signals were observed with the use of voclosporin in LN patients; voclosporin was well-tolerated, and the safety profile was consistent with other immunomodulators. A total of three subjects were discontinued prior to 48 weeks due to lupus related complications or investigator discretion.

Results from AURION demonstrated that an early UPCR reduction of 25% is the best predictor of renal response at 24 and 48 weeks. In addition, the use of C3 or C4 improves the precision of predicting if a patient will achieve a clinical response. This exploratory study is supportive of the successful AURA clinical trial.

Each arm of the trial included the current standard of care of MMF as background therapy and a forced steroid taper to 5mg/day by week 8 and 2.5mg/day by week 16.

Results from Japanese Phase 1 Ethno-bridging Study for Voclosporin

On February 14, 2017, we announced the results of a supportive Phase 1 safety PK-PD study in healthy Japanese patients which supports further development of voclosporin in this patient population. Based on evaluations comparing the Japanese ethno-bridging data vs. previous PK and PD studies in non-Japanese patients, voclosporin demonstrated no statistically significant differences in exposure with respect to Area Under the Curve measurements. Furthermore, the PK parameters in Japanese patients were generally consistent with previously evaluated PK parameters in non-Japanese volunteers. There were no unusual or unexpected safety signals in the study.

March 20, 2017 Offering

On March 20, 2017, we completed an underwritten public offering of 25.64 million Common Shares, which included 3.35 million Common Shares issued pursuant to the full exercise of the underwriters' over-allotment option to purchase additional Common Shares (the "March Offering"). The Common Shares were sold at a public offering price of US\$6.75 per share. The gross proceeds from the March Offering were US\$173.10 million before deducting the 6% underwriting commission and other offering expenses which totaled US\$10.78 million. Leerink Partners LLC and Cantor Fitzgerald & Co. acted as joint book-running managers for the March Offering. The March Offering was made pursuant to a U.S. registration statement on Form F-10, declared effective by the SEC on November 5, 2015 (the "Registration Statement"), and the Company's existing Canadian short form base shelf prospectus (the "2015 Base Shelf Prospectus") dated October 16, 2015. The prospectus supplements relating to the Offering (together with the 2015 Base Shelf Prospectus and the Registration Statement) were filed with the securities commissions in the provinces of British Columbia, Alberta and Ontario in Canada, and with the SEC in the United States.

Changes to Board and Management

On February 6, 2017, we appointed Dr. Richard M. Glickman LLD (Hon), our founder and Chairman of the Board, as our Chairman and CEO. The Board accepted the resignation of Charles Rowland as CEO and an executive member of the Board.

On May 9, 2017, we appointed George M. Milne Jr., PhD to the Board. Prior to his retirement, Dr. Milne served as Executive Vice President of Global Research and Development and President of Worldwide Strategic and Operations Management at Pfizer. Dr. Milne serves on multiple corporate boards including Charles River Laboratories where he is the lead director and Amylyx Pharmaceuticals and is a Venture Partner at Radius Ventures. On May 8, 2017, Dr. Gregory Ayers resigned from the Board.

[Table of Contents](#)

On April 17, 2017, we hired Simrat Randhawa MD, MBA, as Head of Medical Affairs. Simrat brings over 20 years of experience to Aurinia across clinical practice, medical affairs and business development. For the past 10 years, he has held a number of senior leadership roles in commercial and medical affairs within large and small pharmaceutical companies. During this time, Simrat served as the medical lead for Novartis' Multiple Sclerosis (MS) franchise, where he played an integral role in establishing Gilenya® as the first oral therapy for the treatment of Relapsing MS. Most recently he was the global medical affairs lead at BioMarin Pharmaceuticals for MPS, Duchenne Muscular Dystrophy and Hemophilia

On July 3, 2017, we hired Erik Eglite, DPM, JD, MBA as Senior Vice President, General Counsel & Chief Corporate Compliance Officer. Prior to joining Aurinia, Erik was Vice President, Chief Compliance Officer and Corporate Counsel for Marathon Pharmaceuticals and Vice President, Chief Compliance Officer and Corporate Counsel for Lundbeck Pharmaceuticals. Prior to that, he was Vice President, Chief Compliance Officer and Corporate Counsel for Ovation Pharmaceuticals and Global Chief Compliance Officer, Corporate Counsel for Aspreva Pharmaceuticals. Erik has been involved with the clinical development, launch and commercialization of 12 drugs and drug programs. He is also a licensed podiatric physician and surgeon.

Termination of Paladin Agreements

Effective December 28, 2017, we terminated the License Agreement dated June 18, 2009 between Paladin and the Company (as amended). Concurrent with the termination of the License Agreement, under the terms of the R&D Agreement dated June 18, 2009, between Paladin and the Company (as amended), the R&D Agreement also terminated effective December 28, 2017.

CLINICAL AND CORPORATE DEVELOPMENTS IN 2016

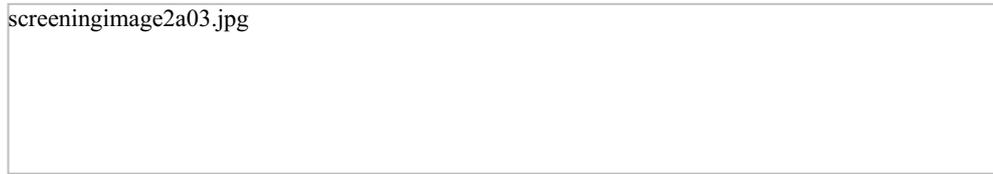
FDA End of Phase 2 Meeting and Plans for Single LN Phase 3 Clinical Trial

On November 2, 2016, we announced the FDA's preference for a single LN Phase 3 clinical trial for voclosporin in the treatment of LN and our plans and expectations for the AURORA clinical trial. A further description of the AURORA clinical trial is set out under the headings "*Three Year History - Clinical and Corporate Developments in 2018 - AURORA clinical trial*" and "*Three Year History - Clinical and Corporate Developments in 2017 - Initiation of AURORA clinical trial*".

AURION Clinical Trial Update

The AURION trial was a single-arm, twin center, exploratory study assessing the predictive value of an early reduction in proteinuria in subjects receiving 23.7 mg of voclosporin BID with the current standard of care in patients with active LN. The primary objective of the AURION clinical trial was to examine biomarkers of disease activity at eight weeks and their ability to predict response at 24 and 48 weeks.

Study Design:



screeningimage2a03.jpg

The primary analysis is the number of patients achieving each of the following biomarkers and the number of these patients who go on to achieve week 24 or week 48 remission.

Biomarkers:

- 25% reduction in UPCR at eight weeks;
- C3 complement normalization at 8 weeks;
- C4 complement normalization at 8 weeks;
- and
- Anti-dsDNA normalization at eight weeks.

The secondary analysis includes the 24 and 48-week outcomes, markers of SLE and PK-PD of voclosporin.

On October 6, 2016, we announced 24-week data in all 10 patients from the AURION clinical trial, an open-label exploratory study to assess the short-term predictors of response using voclosporin (23.7 mg BID) in combination with MMF and oral corticosteroids in patients with active LN. The data was presented by Robert Huizinga, Vice President of Clinical Affairs at Aurinia Pharmaceuticals at the 10th Annual European Lupus Meeting in Venice, Italy.

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) of patients achieved CR at 24 weeks as measured by a UPCR of 0.5mg/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 25% at 8 weeks, 80% were responders (50% reduction in UPCR over baseline) at 24 weeks and 70% were in CR at 24 weeks, proteinuria levels decreased by a mean of 61% from baseline through the

[Table of Contents](#)

first 24 weeks of the study. In addition, inflammatory markers such as C3, C4 and Anti-dsDNA all continued to normalize to 24 weeks. Voclosporin was well-tolerated with no unexpected safety signals observed. Renal function, as measured by eGFR, also remained stable over the 24 weeks. We believe that the results of the AURION clinical trial supports the use of the 23.7 mg twice daily dose in further studies.

Details of the results are below:

Patient#	Attained \geq25% reduction in UPCR at 8 weeks	Attained PR* at 8 weeks	Attained PR* at 24 weeks	Attained CR at 8 weeks	Attained CR 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

AURA - Positive Top-Line Results For 24 Week Data

On August 15, 2016, we announced positive top-line results from the AURA clinical trial in patients with active LN. The trial achieved its primary endpoint, demonstrating statistically significantly greater CR at 24 weeks (and confirmed at 26 weeks) in patients treated with 23.7 mg of voclosporin twice daily ($p=0.045$). This was the first global study of LN to meet its primary end point. Both treatment arms, 23.7 mg and 39.5 mg twice daily also showed a statistically significant improvement in the rate of achieving PR at 24 weeks ($p=0.007$; $p=0.024$). Each arm of the trial included the current standard of care of MMF as background therapy, and a forced steroid taper.

AURA Trial Design

The AURA clinical trial compared the efficacy of voclosporin added to current standard of care of MMF, also known as CellCept®, 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 trial, 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 active LN.

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.

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The primary endpoint was a measure of the number of patients who achieved CR at 24 weeks which had to be confirmed at 26 weeks. CR required the following four elements:

- protein/creatinine ratio of 0.5 mg/mg;
- normal stable renal function (eGFR 60 mL/min/1.73m² or no confirmed decrease from baseline in eGFR of 20%);
- presence of sustained, low dose steroids (10mg/day of prednisone from week 16 - 24); and
- no administration of rescue medications throughout the treatment period.

Summary of Results

The groups were generally well-balanced for age, gender and race, however, when considered together, the proteinuria and eGFR 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 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 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 with no administration of rescue medication throughout the treatment period) 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 AEs was similar across all groups.
- The overall rate of 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, with the majority of overall deaths (11/13) occurring in Asia. All deaths were assessed by the study investigator as being unrelated to study treatment.

On September 29, 2016, we 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 50% reduction in UPCR with no concomitant use of rescue medication; time to CR and PR; reduction in SLEDAI score; and reduction in UPCR over the 24-week treatment period.

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

All p-values are vs control

On September 30, 2016, we presented detailed results on the AURA clinical trial. These included a number of pre-specified subset and co-variate analyses and post-hoc analyses on the data, which show rapid proteinuria reduction and early remission. Based on recent literature suggesting that using a UPCR of .7mg/mg has better predictive power regarding long-term renal outcomes in LN patients, we performed a post hoc analysis applying this measure. In doing so, we saw both a greater treatment difference between the 23.7 mg BID voclosporin arm and the control arm, and better statistical power, which improves from a p-value of .045 to less than .01.

Based on these data we believe:

- voclosporin has shown statistically significant efficacy in multiple dimensions;
- pre-specified and post-hoc analyses have provided valuable insight;
- the LN Phase 3 clinical trial will be de-risked based upon the AURA results; and
- biomarker data suggest significant effect on the underlying immunologic process of the disease.

We also released detailed safety data for the trial including an in-depth mortality assessment. 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 across multiple indications with no unexpected SAEs. Clinical doses of voclosporin studies to date range from 13-70 mg BID.

Table of Contents

In comparing four global LN trials, AURA, ALMS, Ocrelizumab and Abatacept, it is evident that the AURA clinical trial enrolled the most severe patients, 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 and voclosporin was well-tolerated. The overall safety profile of voclosporin is consistent with other immunomodulators. The summary of AEs by SOC across arms in the trial is as follows:

	Control	Voclosporin 23.7mg BID	Voclosporin 39.5 mg BID
SOC	N=88	N=89	N=88
Any AE	74 (84.1)	81 (91.0)	84 (95.5)

Thirteen deaths have been reported in the AURA clinical trial which is a pattern that is consistent with other global active LN studies.

On November 15, 2016, at the American College of Rheumatology annual meeting, we presented speed of remission data from the AURA trial in a late-breaking abstract titled “*Speed of Remission with the Use of Voclosporin, MMF and Low Dose Steroids: Results of a Global Lupus Nephritis Study* .” The data presented are a post-hoc responder analysis (median time to CR for those who achieve CR), demonstrating 7.3 weeks to CR for voclosporin 23.7mg BID vs the control arm of 12 weeks.

On November 21, 2016, at the American Society of Nephrology Kidney Week 2016, we presented renal function data for the AURA trial in a late-breaking session titled “*High Impact Clinical Trials*”. These data showed that in the voclosporin treatment arms, the renal function as measured by eGFR was stable and not significantly different from the control arm during the course of the trial. Mean blood pressure was slightly reduced and was similar between all treatment groups.

2016 Financings

June 2016 Private Placement

On June 22, 2016, we completed a private placement of 3 million units at US\$2.36 per unit for aggregate gross proceeds of US\$7.08 million. Each unit consisted of one Common Share and a 0.35 of one Common Share purchase warrant exercisable for a period of two years from the date of issuance at an exercise price of US\$2.77.

July 2016 ATM

On July 22, 2016, we entered into a controlled equity offering sales agreement with Cantor Fitzgerald & Co. pursuant to which the Company was authorized to sell, from time to time, through at-the-market offerings with Cantor Fitzgerald & Co. acting as sales agent, such Common Shares as would have an aggregate offer price of up to US\$10 million. We also filed a prospectus supplement with securities regulatory authorities in Canada in the provinces of British Columbia, Alberta and Ontario, and with the SEC, which supplemented our 2015 Base Shelf Prospectus and our Registration Statement. Sales in the July 2016 ATM were only conducted in the United States through NASDAQ at market prices. No sales were conducted in Canada or through the TSX.

As of October 3, 2016, sales pursuant to the July 2016 ATM were concluded. We issued 3.31 million Common Shares, receiving gross proceeds in the aggregate of US\$8 million (US\$6.14 million in the third quarter of 2016 and US\$1.86 million subsequent to the quarter end), being the maximum value permissible in accordance with Canadian securities laws.

November 9, 2016 ATM

We entered into a controlled equity offering sales agreement with Cantor Fitzgerald & Co. dated November 9, 2016 relating to the sale of our Common Shares having an aggregate offering price of up to US\$8.0 million. We also filed a prospectus supplement on November 9, 2016 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 supplemented our shelf prospectus. The prospectus supplement was amended, and an amended and restated prospectus supplement was filed on February 24, 2017 to update changes to certain information.

The sales under the November 2016 ATM were only conducted in the United States through NASDAQ at market prices. No sales were conducted in Canada or through the TSX.

As a result of completion of the March Offering, we determined that the November 2016 ATM facility was no longer required and as a result the sales agreement was terminated effective May 8, 2017.

As at December 31, 2016, we had issued 139,000 Common Shares and received gross proceeds of US\$396,000. There were no sales under the November 2016 ATM in 2017.

December 2016 Public Offering

On December 28, 2016, we closed our US\$28.75 million financing (including US\$3.75 million pursuant to an exercise of the underwriters' over-allotment option), for the sale of 12.78 million units at a price of US\$2.25 per unit. Each unit consisted of one Common Share and one half of one Common Share purchase warrant. Each December 2016 Warrant entitles the holder to purchase one common share at the exercise

[Table of Contents](#)

price of US\$3.00 per common share for a period of five years after the closing of the offering. H.C. Wainwright & Co., LLC acted as sole book-running manager, and Cormark Securities Inc., acted as co-manager. The underwriters received a fee of 7.0% of the gross proceeds of the offering.

REGULATORY

Aurinia intends to submit for marketing approval in the United States, Europe and Japan based on the data from AURORA and the results of the AURA clinical trial.

REGULATORY REQUIREMENTS

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

Although only the jurisdictions of the United States, Europe and Japan are discussed in this section, we may also seek regulatory approval in other jurisdictions in the future and may initiate other clinical studies if and where appropriate.

United States

In the United States, all drugs are regulated under the Code of Federal Regulations and are enforced by the FDA. The regulations require that non-clinical and clinical studies be conducted to demonstrate the safety and effectiveness of products before marketing, and that the manufacturing be conducted according to certain GMP standards provided by the FDA.

Subsequent to the initial proof-of-concept and preliminary safety studies, the application submitted to the FDA prior to conducting human clinical trials of new drugs is referred to as an IND application. This application contains information related to the safety, efficacy and quality of the drug, and the FDA has 30 days in which to notify us if the application is unsatisfactory. If the application is deemed satisfactory, then we may proceed with the clinical trials. Before a clinical trial can commence at each participating clinical trial site, the site's IRB/IEC must approve the clinical protocol and other related documents. The FDA or an IRB/IEC may place a hold on a clinical trial at any time.

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

Europe

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

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

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

Japan

Japan has a unique set of processes for the regulation of drugs. The PMDA is the main Regulatory Agency that oversees the review and approval of the drugs as per the regulatory prerequisites in Japan.

Japan's regulatory system requires the IND Application documents to be prepared in the Common Technical Document (CTD) format. Subsequent to the application submission, PMDA evaluates the application with respect to the preclinical data, and protocols for clinical studies etc. It takes approximately 30 days for initial IND and 14 days for subsequent IND filings. Once queries have been answered by the applicant, PMDA completes its review and the IND application will be transferred to IRB for the review. IRB takes one to four weeks of time for the completion of the review. Once IRB provides a favorable response, IND application will be approved after which, clinical trials can be initiated on human subjects in Japan.

Once the applicant files the J-NDA, PMDA reviews the application and schedules a face-to-face meeting with the applicant during which queries from PMDA are discussed. Meanwhile, GMP investigation of manufacturing site will be carried out. After the face-to-face meeting, the PMDA reviewer prepares a Review Report. If there are any major issues, PMDA organizes the Expert Discussion, which involves a discussion between the PMDA reviewer and external expert on the proposed major issue(s). Subsequent to the discussions with the external expert, PMDA reviewer will prepare a summary of the main issues and discuss with the applicant in another face-to-face review meeting (can be held 2 times).

Following this review meeting, PMDA may again hold another Expert Discussion (if necessary) and prepares the Review Report for final approval within the Japanese government. The standard time for approval of a J-NDA is approximately 12 months.

BUSINESS MATTERS

DRUG DEVELOPMENT PROCESS

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

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

1. **Nonclinical Animal Studies** - These studies evaluate the safety and potential efficacy of a therapeutic product and form part of the application which must be reviewed by the appropriate regulatory authority prior to initiation of human clinical trials.
2. **Phase 1 Clinical Trials** - These trials test the product in a small number of healthy volunteers to determine toxicity (safety), maximum dose tolerance, and pharmacokinetic properties.
3. **Phase 2 Clinical Trials** - These trials are conducted in the intended patient population and include a larger number of subjects than in Phase 1. The primary goal is to determine the safety of a product in a larger number of patients and ultimately in the intended patient population. These trials may also provide early information on the potential effectiveness of a product.
4. **Phase 3 Clinical Trials** - These trials are conducted in an expanded patient population at multiple sites to determine longer-term clinical safety and efficacy of the product. It is from the data generated in these trials that the benefit/risk relationship of a product is established, and the final drug labelling claims are defined.

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

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

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

MANUFACTURING, ENCAPSULATING AND PACKAGING OF VOCLOSPORIN

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

Voclosporin, requires a specialized manufacturing process. Lonza is currently our sole manufacturer of voclosporin and has manufactured the API for our clinical trials since 2004. Pricing for clinical supply is determined through negotiations between Lonza and the Company and is based on the size of specific API production runs and the cost of the raw materials used in the API manufacturing process. As at the date of this AIF, we have not experienced any difficulty in obtaining the raw materials required with respect to the manufacturing of voclosporin.

[Table of Contents](#)

Lonza Manufacturing Collaboration Agreement

In November 2016, we entered into a long-term manufacturing collaboration and services agreement with Lonza for the manufacture of our API. This agreement follows a successful multi-year clinical manufacturing relationship where the Company and Lonza have been refining the process and analytical methods to produce clinical and commercial supplies of voclosporin. Under the terms of the agreement, Lonza has agreed to produce cGMP-grade voclosporin drug substance for use in our clinical trials and for future commercial use. The agreement also provides an option to have Lonza exclusively supply API for up to 20 years. Lonza is the sole supplier for manufacture of our API.

Encapsulating and Packaging of Voclosporin

We have contracted Catalent to encapsulate and package voclosporin for our LN and FSGS clinical studies. Catalent is currently the sole supplier for encapsulating and packaging our voclosporin clinical drug supply. Pricing for these services is determined by negotiations between Catalent and the Company and is based on the specific production run size.

It is our intention that Catalent will provide services with respect to encapsulating voclosporin required for our future commercial supply needs. We are currently in the process of determining our packaging supplier for our commercial supply requirements.

VOS

We have contracted Unither to manufacture VOS for our DES clinical studies. Sharp Clinical packages VOS for our clinical DES studies. Pricing for these services is determined by negotiations between Unither and Sharp Clinical, respectively, and the Company and is based on the specific production run size.

INTELLECTUAL PROPERTY RIGHTS

Patents and other proprietary rights are essential to our business. Our policy has been to file patent applications to protect technology, inventions, and improvements to our inventions that are considered important to the development of our business. We are pursuing certain avenues to expand the voclosporin intellectual property portfolio, including a use patent strategy (which involves potential development of use patents driven by AURA Phase 2b data) and a potential manufacturing patent and trade secret strategy.

The Company has an extensive granted patent portfolio related to cyclosporine analogs, including granted United States patents, covering voclosporin composition of matter, methods of use, formulations and synthesis. The corresponding Canadian, South African and Israeli patents are owned by Paladin Labs Inc. We anticipate that upon regulatory approval, patent protection for voclosporin will be extended in the United States (Patent Term Extension) and certain other major markets, including Europe and Japan, until at least October 2027 under the Hatch-Waxman Act in the United States and comparable patent extension laws in other countries (including the Supplementary Protection Certificate program in Europe). Opportunities may also be available to add an additional six months of exclusivity related to pediatric studies which are currently in the planning process. In addition to patent rights, we also expect to receive "new chemical entity" exclusivity for voclosporin in certain countries, which provides from five years in the United States and up to ten years in Europe.

Further, pursuant to a Notice of Allowance from the USPTO for claims directed at our novel voclosporin dosing protocol for LN as more fully discussed in the Recent Developments section of this AIF, after administrative processes are completed and fees are paid, we expect the issuance of a U.S. patent with a term extending to December 2037. If the FDA approves the use of voclosporin for LN and the label for such use follows the dosing protocol under the Notice of Allowance, the issuance of this patent will expand the scope of intellectual property protection for voclosporin, which already includes robust manufacturing, formulation, synthesis and composition of matter patents. We have also filed for protection of this subject matter under the PCT and have the option of applying for similar protection in the member countries thereof. This may lead to the granting of corresponding claims in the treaty countries which include all the major global pharmaceutical markets.

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

We have patent protection for VOS as we own two granted United States patents and 14 patents in other jurisdictions related to ophthalmic formulations of calcineurin inhibitors or mTOR inhibitors, including voclosporin. We also have one granted United States patent and 10 patents in other jurisdictions related to topical drug delivery system for ophthalmic use. These patents expire between 2028 and 2031.

COMPETITIVE ENVIRONMENT

The pharmaceutical and biotechnology industries are characterized by rapidly evolving technology and intense competition. Many companies, including major pharmaceutical as well as specialized biotechnology companies, are engaged in activities focused on medical conditions that are the same as, or similar to, those targeted by us. Many of these companies have substantially greater financial and other resources, larger research and development staff, and more extensive marketing and manufacturing organization than we do. Many of these companies have significant experience in preclinical testing, human clinical trials, product manufacturing, marketing and distribution, and other regulatory approval procedures. In addition, colleges, universities, government agencies, and other public and private research organizations conduct research and may market commercial products on their own or through collaborative agreements. These institutions are becoming more active in seeking patent protection and licensing arrangements to collect royalties for use of technology that they have developed. These institutions also compete with us in recruiting and retaining highly qualified scientific personnel.

[Table of Contents](#)

EMPLOYEES

	As at December 31, 2018	As at December 31, 2017	As at December 31, 2016
Total Number of Employees	39	33	20

As at December 31, 2018 we employed 39 employees, 34 of whom held advanced degrees in science and business, including two with a Ph.D. degree, two with a MD, one with a J.D. and seven with a Masters degree.

Of our total 39 employees as at December 31, 2018, 20 employees were engaged in, or directly support, clinical trial activities; and 19 employees were engaged in corporate, administration and business development activities.

Our employees are not governed by a collective agreement. We have not experienced a work stoppage and believe our employee relations are satisfactory given the current economic conditions.

FACILITIES

The Company entered into an agreement, effective June 1, 2014, to sublease 5,540 square feet of office and storage space at its head office location in Victoria, British Columbia for a term of five years. On December 6, 2018 the Company signed a commitment letter and entered into a new sublease on January 28, 2019 to rent 9,406 square feet of office and storage space at the existing location effective June 1, 2019. The new sublease is for a term of three years, however, the Company has the ability to cancel upon 12 months' notice. The estimated base rent plus operating costs on a monthly basis for the period from January 1, 2019 to May 31, 2019 is approximately US\$11,000 per month increasing to approximately US\$21,000 per month for the period of June 1, 2019 to May 31, 2022.

The Company entered into an agreement on November 14, 2014 to lease 1,247 square feet of office space for a term of two years commencing on January 1, 2015 for the Edmonton, Alberta registered office where the Company's finance group is located. The lease was subsequently renewed until December 31, 2019 at a cost of approximately US\$1,400 per month on the same terms as the original lease.

RISK FACTORS

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

RISKS RELATING TO AURINIA'S BUSINESS

Clinical Trial Progress and Results - Heavy Dependence on Voclosporin

We have invested a significant portion of our time and financial resources in the development of voclosporin. We anticipate that our ability to generate revenues and meet expectations will depend primarily on the successful development, regulatory approval and commercialization of voclosporin.

The successful development and commercialization of voclosporin will depend on several factors, including the following:

- successful and timely completion of our clinical programs in LN and DES, including the AURORA trial which is anticipated to be completed in late 2019;
- receipt of marketing approvals from the FDA and other regulatory authorities with a commercially viable label;
- securing and maintaining sufficient expertise and resources to help in the continuing development and eventual commercialization of voclosporin;
- maintaining suitable manufacturing and supply arrangements to ensure commercial quantities of the product through validated processes;
- acceptance and adoption of the product by the medical community and third-party payers;
- and
- our ability to raise future financial resources when required. Future additional sources of capital could include payments from equity financings, debt financings, potential new licensing partners, and/or the monetization of our intangible assets.

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

[Table of Contents](#)

We may not be able to obtain required regulatory approvals for our product candidate and there is no assurance of successful development.

We have not completed the development of any therapeutic products and in particular, voclosporin, and therefore there can be no assurance that any product will be successfully developed. Voclosporin has not received regulatory approval for our commercial use and sale for any indication, in any jurisdiction. We cannot market a pharmaceutical product in any jurisdiction until it has completed thorough preclinical testing and clinical trials in addition to that jurisdiction's extensive regulatory approval process. In general, significant research and development and clinical studies are required to demonstrate the safety and effectiveness of our product before submission of any regulatory applications. We may never obtain the required regulatory approvals for our product in any indication. Product candidates require significant additional research and development efforts, including clinical trials, prior to regulatory approval and potential commercialization, however, there can be no assurance that the results of all required clinical trials will demonstrate that these product candidates are safe and effective or, even if the results of all required clinical trials do demonstrate that these product candidates are safe and effective, or even if the results of the clinical trials are considered successful by us, that the regulatory authorities will not require us to conduct additional clinical trials before they will consider approving product candidates for commercial use. The FDA and other regulators have substantial discretion in the approval process.

Approval or consent by regulatory authorities to commence a clinical trial does not indicate that the device, drug, or treatment being studied can or will be approved. Of the large number of drugs in development, only a small percentage result in the submission of an application to the FDA and even fewer are approved for commercialization. The process of obtaining required approvals (such as, but not limited to, the approval of the FDA, the EMA, PMDA and Health Canada) is complex, expensive, time intensive, entails significant uncertainty and there can be no assurance that future products will be successfully developed, proven safe and effective in clinical trials or receive applicable regulatory approvals. Potential investors should be aware of the risks, problems, delays, expenses and difficulties which may be encountered by us in view of the extensive regulatory environment which controls our business. The regulatory review process typically varies in time, may take years to complete and approval is not guaranteed. Any approval might also contain significant limitations which may affect our ability to successfully develop its product candidate. Also, any regulatory approval once obtained, may be withdrawn. If regulatory approval is obtained in one jurisdiction, that does not necessarily mean that we will receive regulatory approval in all jurisdictions in which we may seek approval, or any regulatory approval obtained may not be as broad as what was obtained in other jurisdictions. However, the failure to obtain approval for our product candidate in one or more jurisdictions may negatively impact our ability to obtain approval in a different jurisdiction. If our development efforts for our product candidate are not successful or regulatory approval is not obtained in a timely fashion, on acceptable terms or at all, it will have a material adverse effect on the business, financial condition, and results of operations.

The results of our completed preclinical studies and clinical trials may not be indicative of future clinical trial results. A commitment of substantial resources to conduct time-consuming research, preclinical studies, and clinical trials will be required if we are to complete the development of our product.

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

Our future performance will be impacted by a number of important factors, including, in the short-term, our ability to continue to generate cash flow from financings, and in the longer term, our ability to generate royalty or other revenues from licensed technology and bring new products to the market. Our future success will require efficacy and safety of our product and regulatory approval for the product. Future success of commercialization of any product is also dependent on our ability to obtain patents, enforce such patents, avoid patent infringement, and obtain patent extensions where applicable.

Government Regulation

The production and marketing of our product and our ongoing research and development activities are subject to regulation by numerous federal, provincial, state and local governmental authorities in the United States and any other countries where we may test or market our product. These laws require the approval of manufacturing facilities, including adhering to "good manufacturing" and/or "good laboratory" practices during production and storage, the controlled research and testing of products, governmental review and approval of submissions requiring manufacturing, pre-clinical and clinical data to establish the safety and efficacy of the product for each use sought in order to obtain marketing approval, and the control of marketing activities, including advertising and labeling. Failure to adhere to these requirements could invalidate our data.

If we secure regulatory approval, we would continue to be subject to extensive ongoing regulatory requirements. Manufacturing of approved drug products must comply with extensive regulations governing GMP. Manufacturers and their facilities are subject to continual review and periodic inspections. As we may be dependent on third parties for manufacturing, we will have limited ability to ensure that any entity manufacturing products on our behalf is doing so in compliance with applicable GMP requirements. Failure or delay by any manufacturer of our product to comply with GMP regulations or to satisfy regulatory inspections could have a material adverse effect on us, including potentially preventing us from being able to supply products for clinical trials or commercial sales. In addition, manufacturers may need to obtain approval from regulatory authorities for product, manufacturing, or labeling changes, which requires time and money to obtain and can cause delays in product availability. We are also required to comply with good distribution practices such as maintenance of storage and shipping conditions, as well as security of products, in order to ensure product quality determined by GMP is maintained throughout the distribution network. In addition, we are subject to regulations governing the import and export of our products.

Table of Contents

Sales and marketing of pharmaceutical products are subject to extensive federal and provincial or state laws governing on-label and off-label advertising, scientific/educational grants, gifts, consulting and pricing and are also subject to consumer protection and unfair competition laws. Compliance with extensive regulatory and enforcement requirements requires training and monitoring of the sales force and other field personnel, which could impose a substantial cost on us. To the extent our product is marketed by collaborators, our ability to ensure their compliance with applicable regulations would be limited. In addition, we are subject to regulations governing the design, testing, control, manufacturing, distribution, labeling, quality assurance, packaging, storage, shipping, import and export of our product candidate.

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

Product Development Goals and Time Frames

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

We will have significant additional future capital needs in 2020 and beyond and there may be uncertainties as to our ability to raise additional funding in the future to meet these needs.

We will require significant additional capital resources to expand our business, in particular the further development of our product candidate, voclosporin, whether for LN or any other indication. Advancing our product candidate, marketing for our product, or acquisition and development of any new products or product candidates will require considerable resources and additional access to capital markets. In addition, our future cash requirements may vary materially from those now expected. For example, our future capital requirements may increase if:

- we experience unexpected or increased costs relating to preparing, filing, prosecuting, maintaining, defending and enforcing patent claims, or other lawsuits, brought by either us or our competition;
- we experience scientific progress sooner than expected in our discovery, research and development projects, if we expand the magnitude and scope of these activities, or if we modify our focus as a result of our discoveries;
- we are required to perform additional pre-clinical studies and clinical trials; or
- we elect to develop, acquire or license new technologies, products or businesses.

We could potentially seek additional funding through corporate collaborations and licensing arrangements or through public or private equity or debt financing. However, if capital market conditions in general, or with respect to life sciences companies such as ours, are unfavorable, our ability to obtain significant additional funding on acceptable terms, if at all, will be negatively affected. Additional financing that we may pursue may involve the sale of Common Shares which could result in significant dilution to our shareholders. If sufficient capital is not available, we may be required to delay our research and development projects, which could have a material adverse effect on our business, financial condition, prospects or results of operations.

Patents and Proprietary Technology

Patents and other proprietary rights are essential to our business. Our policy has been to file patent applications to protect technology, inventions, and improvements to our inventions that are considered important to the development of our business.

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

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

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

Table of Contents

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

We received a Notice of Allowance from the USPTO for claims directed at our novel voclosporin dosing protocol for LN (U.S. patent application 15/835,219, entitled "PROTOCOL FOR TREATMENT OF LUPUS NEPHRITIS") which concluded a substantive examination of the patent application at the USPTO, and after administrative processes are completed and fees are paid, is expected to result in the issuance of a U.S. patent with a term extending to December 2037. For this patent to be useful, it will require that the FDA approve the use of voclosporin for LN and that the label for such use will follow the dosing protocol under the Notice of Allowance claims.

Clinical trials for our product candidate are expensive and time-consuming, and their outcome is uncertain.

Before we can obtain regulatory approval for the commercial sale of any product candidate currently under development, we are required to complete extensive clinical trials to demonstrate its safety and efficacy. Clinical trials are very expensive and difficult to design and implement. The clinical trial process is also time-consuming. If we find a collaboration partner for the development of voclosporin (whether for LN, DES or any other indication), the clinical trials are expected to continue for several years, although costs associated with voclosporin may well be shared with our collaboration partner. The timing of the commencement, continuation and completion of clinical trials may be subject to significant delays relating to various causes, including:

- our inability to find collaboration partners, if needed;
- our inability to manufacture or obtain sufficient quantities of materials for use in clinical trials;
- delays in obtaining regulatory approvals to commence a study, or government intervention to suspend or terminate a study;
- delays, suspension, or termination of the clinical trials imposed by the IRB/IEC responsible for overseeing the study to protect research subjects at a particular study site;
- delays in identifying and reaching agreement on acceptable terms with prospective clinical trial sites;
- slower than expected rates of patient recruitment and enrollment;
- uncertain dosing issues;
- inability or unwillingness of medical investigators to follow our clinical protocols;
- variability in the number and types of subjects available for each study and resulting difficulties in identifying and enrolling subjects who meet trial eligibility criteria;
- scheduling conflicts with participating clinicians and clinical institutions;
- difficulty in maintaining contact with subjects after treatment, which results in incomplete data;
- unforeseen safety issues or side effects;
- lack of efficacy during the clinical trials;
- our reliance on clinical research organizations to conduct clinical trials, which may not conduct those trials with good clinical or laboratory practices; or
- other regulatory delays.

The results of pre-clinical studies and initial clinical trials are not necessarily predictive of future results, and our current product candidate may not have favourable results in later trials or in the commercial setting.

Success in pre-clinical or animal studies and early clinical trials neither ensure that later large-scale efficacy trials will be successful, nor does it predict final results. Pre-clinical tests and Phase 1 and Phase 2 clinical trials are primarily designed to test safety, to study pharmacokinetics and pharmacodynamics and to understand the side effects of product candidates at various doses and schedules. Favourable results in early trials may not be repeated in later trials.

A number of companies in the life sciences industry have suffered significant setbacks in advanced clinical trials, even after positive results in earlier trials. Clinical results are frequently susceptible to varying interpretations that may delay, limit or prevent regulatory approvals. Negative or inconclusive results or adverse medical events during a clinical trial could cause a clinical trial to be delayed, repeated or terminated. In addition, failure to construct appropriate clinical trial protocols could result in the test or control group experiencing a disproportionate number of AEs and could cause a clinical trial to be repeated or terminated. Pre-clinical data and the clinical results we have obtained for voclosporin (for LN or any other indication) may not predict results from studies in larger numbers of subjects drawn from more diverse populations or in a commercial setting, and also may not predict the ability of our product to achieve its intended goals, or to do so safely.

We will be required to demonstrate in Phase 3 clinical trials that voclosporin is safe and effective for use in a diverse population before we can seek regulatory approvals for its commercial sale. There is typically an extremely high rate of attrition from the failure of product candidates proceeding through clinical and post-approval trials. If voclosporin fails to demonstrate sufficient safety and efficacy in ongoing or future clinical trials, we could experience potentially significant delays in, or be required to abandon development of, our product candidate currently under development.

Table of Contents

Our industry is subject to health and safety risks.

While we take substantial precautions such as laboratory and clinical testing, toxicology studies, quality control and assurance testing and controlled production methods, the health and safety risks associated with producing a product for human ingestion cannot be eliminated. Products produced by us may be found to be, or to contain substances that are harmful to the health of our patients and customers and which, in extreme cases, may cause serious health conditions or death. This sort of finding may expose us to substantial risk of litigation and liability.

Further, we would be forced to discontinue production of our product, which would harm our profitability. We maintain product liability insurance coverage; however, there is no guarantee that our current coverage will be sufficient or that we can secure insurance coverage in the future at commercially viable rates or with the appropriate limits.

Our product may not achieve or maintain expected levels of market acceptance, which could have a material adverse effect on our business, financial condition and results of operations and could cause the market value of our Securities to decline.

Even if we are able to obtain regulatory approvals for our product, the success of the product is dependent upon achieving and maintaining market acceptance. New product candidates that appear promising in development may fail to reach the market or may have only limited or no commercial success. Levels of market acceptance for our product could be impacted by several factors, many of which are not within our control, including but not limited to:

- safety, efficacy, convenience and cost-effectiveness of our product compared to products of our competitors;
- scope of approved uses and marketing approval;
- timing of market approvals and market entry;
- difficulty in, or excessive costs to, manufacture;
- infringement or alleged infringement of the patents or intellectual property rights of others;
- availability of alternative products from our competitors;
- formulary placement and status;
- acceptance of the price of our product; and
- ability to market our product effectively at the retail level.

In addition, by the time any products are ready to be commercialized, what we believe to be the market for these products may have changed. Our estimates of the number of patients who have received or might have been candidates to use a specific product may not accurately reflect the true market or market prices for such products or the extent to which such products, if successfully developed, will actually be used by patients. Our failure to successfully introduce and market our products would have a material adverse effect on our business, financial condition, and results of operations.

We are dependent upon key personnel to achieve our business objectives.

Our ability to retain key personnel and attract other qualified individuals is critical to our success. As a technology-driven company, intellectual input from key management and personnel is critical to achieve our business objectives. The loss of the services of key individuals might significantly delay or prevent achievement of our business objectives. In addition, because of a relative scarcity of individuals with experience and the high degree of education and scientific achievement required for our business, competition among life sciences companies for qualified employees is intense and, as a result, we may not be able to attract and retain such individuals on acceptable terms, or at all. In addition, because we do not maintain “key person” life insurance on any of our officers, employees, or consultants, any delay in replacing such persons, or an inability to replace them with persons of similar expertise, would have a material adverse effect on our business, financial condition, and results of operations.

We also have relationships with scientific collaborators at academic and other institutions, some of whom conduct research at our request or assist us in formulating our research and development strategies. These scientific collaborators are not our employees and may have commitments to, or consulting or advisory contracts with, other entities that may limit their availability to us. In addition, even though our collaborators are required to sign confidentiality agreements prior to working with us, they may have arrangements with other companies to assist such other companies in developing technologies that may prove competitive to us.

Incentive provisions for our key executives include the granting of stock options that vest over time, designed to encourage such individuals to stay with us. However, a low share price, whether as a result of disappointing progress in our development programs or as a result of market conditions generally, could render such agreements of little value to our key executives. In such event, our key executives could be susceptible to being hired away by our competitors who could offer a better compensation package. If we are unable to attract and retain key personnel, our business, financial conditions and results of operations may be adversely affected.

We are exposed to risks relating to the write-down of intangible assets, which comprises a significant portion of our total assets.

A significant amount of our total assets relate to our intellectual property. As of December 31, 2018, the carrying value of our intangible assets was approximately US\$12.62 million. In accordance with IFRS, we are required to review the carrying value of its intangible assets for impairment periodically or when certain triggers occur. Such impairment will result in a write-down of the intangible asset and the write-down is charged to income during the period in which the impairment occurs. The write-down of any intangible assets could have a material adverse effect on our business, financial condition, and results of operations.

[Table of Contents](#)

If we were to lose our foreign private issuer status under U.S. federal securities laws, we would likely incur additional expenses associated with compliance with the U.S. securities laws applicable to U.S. domestic issuers.

As a foreign private issuer, as defined in Rule 3b-4 under the *Exchange Act*, we are exempt from certain of the provisions of the U.S. federal securities laws. For example, the U.S. proxy rules and the Section 16 reporting and “short swing” profit rules do not apply to foreign private issuers. However, if we were to lose our status as a foreign private issuer, these regulations would immediately apply and we would also be required to commence reporting on forms required of U.S. companies, such as Forms 10-K, 10-Q and 8-K, rather than the forms currently available to us, such as Forms 40-F and 6-K. Compliance with these additional disclosure and timing requirements under these securities laws would likely result in increased expenses and would require our management to devote substantial time and resources to comply with new regulatory requirements. Further, to the extent that we were to offer or sell our Securities outside of the United States, we would have to comply with the more restrictive Regulation S requirements that apply to U.S. companies, and we would no longer be able to utilize the multijurisdictional disclosure system forms for registered offerings by Canadian companies in the United States, which could limit our ability to access the capital markets in the future.

Legislative actions, potential new accounting pronouncements, and higher insurance costs are likely to impact our future financial position or results of operations.

Future changes in financial accounting standards may cause adverse, unexpected revenue fluctuations and affect our financial position or results of operations. New pronouncements and varying interpretations of pronouncements have occurred with greater frequency and are expected to occur in the future. Compliance with changing regulations of corporate governance and public disclosure may result in additional expenses. All of these uncertainties are leading generally toward increasing insurance costs, which may adversely affect our business, results of operations and our ability to purchase any such insurance, at acceptable rates or at all, in the future.

We rely on third parties for the supply and manufacture of voclosporin, which can be unpredictable in terms of quality, cost, timing and availability.

Our drug, voclosporin, requires a specialized manufacturing process. Lonza is currently the sole source manufacturer of voclosporin.

We have contracted Catalent to encapsulate and package voclosporin for our AURORA clinical trial program. Catalent is currently the sole supplier for encapsulating and packaging our clinical drug supply.

It is our intention that Catalent will provide services with respect to encapsulating the voclosporin required for future clinical and commercial supply needs, while the provider of packaging services for commercial supply is yet to be determined.

We have contracted Unither to manufacture VOS for our DES clinical studies, and we have contracted Sharp Clinical to package VOS for our clinical DES studies.

The FDA and other regulatory authorities require that drugs be manufactured in accordance with the current GMP regulations, as established from time to time. Accordingly, in the event we receive marketing approvals for voclosporin, it may need to rely on a limited number of third parties to manufacture and formulate voclosporin. We may not be able to arrange for our product to be manufactured on reasonable terms or in sufficient quantities.

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

In addition, drug and chemical manufacturers are subject to various regulatory inspections, including those conducted by the FDA, to ensure strict compliance with GMP and other government regulations. While we are obligated to audit the performance of our third-party contractors, we do not have complete control over their compliance. We could be adversely impacted if our third-party manufacturers do not comply with these standards and regulations. For non-compliance, the regulatory authority may levy penalties and sanctions, including fines, injunctions, civil penalties, failure of the government to grant review of submissions or market approval of drugs, or cause delays, suspension or withdrawal of approvals, product seizures or recalls, operating restrictions, facility closures and criminal prosecutions. Any of this will have a material adverse impact on our business, financial condition, and results of operations.

Anticipated revenues may be derived from Licensing Activities.

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

Table of Contents

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

Lack of Operating Profits

We have incurred losses and anticipate that our losses will increase as we continue the development of voclosporin and clinical trials and seek regulatory approval for the sale of our therapeutic product. There can be no assurance that we will have earnings or positive cash flow in the future.

As at December 31, 2018, we had an accumulated deficit of US\$415.96 million. The net operating losses over the near-term and the next several years are expected to continue as a result of initiating new clinical trials and activities necessary to support regulatory approval and commercialization of our product. There can be no assurance that we will be able to generate sufficient product revenue to become profitable at all or on a sustained basis. We expect to have quarter-to-quarter fluctuations in expenses, some of which could be significant, due to research, development, and clinical trial activities, as well as regulatory and commercialization activities.

Negative Cash Flow

We had negative operating cash flow for the financial year ended December 31, 2018. We anticipate that we will continue to have negative cash flow as we continue our development of voclosporin. To the extent that we have negative operating cash flow in future periods, we will likely need to allocate a portion of our cash reserves to fund such negative cash flow. We may also be required to raise additional funds through the issuance of equity or debt securities. There can be no assurance that we will be able to generate a positive cash flow from our operations, that additional capital or other types of financing will be available when needed or that these financings will be on terms favourable or acceptable to us.

We may not realize the anticipated benefits of acquisitions or product licenses and integration of these acquisitions and any products acquired or licensed may disrupt our business and management.

As part of our business strategy, we may acquire additional companies, products or technologies principally related to, or complementary to, our current operations. At any given time, we may be evaluating new acquisitions of companies, products or technologies or may be exploring new licensing opportunities, and may have entered into confidentiality agreements, non-binding letters of intent or may be in the process of conducting due diligence with respect to such opportunities. Any such acquisitions will be accompanied by certain risks including, but not limited to:

- exposure to unknown liabilities of acquired companies and the unknown issues with any associated technologies or research;
- higher than anticipated acquisition costs and expenses;
- the difficulty and expense of integrating operations, systems, and personnel of acquired companies;
- disruption of our ongoing business;
- inability to retain key customers, distributors, vendors and other business partners of the acquired company;
- diversion of management's time and attention; and
- possible dilution to shareholders.

We may not be able to successfully overcome these risks and other problems associated with acquisitions and this may adversely affect our business, financial condition or results of operations.

Our business depends heavily on the use of information technologies.

Several key areas of our business depend on the use of information technologies, including production, manufacturing and logistics, as well as clinical and regulatory matters. Despite our best efforts to prevent such behavior, third parties may nonetheless attempt to hack into our systems and obtain data relating to our pre-clinical studies, clinical trials, patients using our product or our proprietary information on voclosporin. If we fail to maintain or protect our information systems and data integrity effectively, we could have problems in determining product cost estimates and establishing appropriate pricing, have difficulty preventing, detecting, and controlling fraud, have disputes with physicians, and other health care professionals, have regulatory sanctions or penalties imposed, have increases in operating expenses, incur expenses or lose revenues as a result of a data privacy breach, or suffer other adverse consequences. While we have invested in the protection of data and information technology, there can be no assurance that our efforts or those of our third-party collaborators, if any, or manufacturers, to implement adequate security and quality measures for data processing would be sufficient to protect against data deterioration or loss in the event of a system malfunction, or to prevent data from being stolen or corrupted in the event of a security breach. Any such loss or breach could have a material adverse effect on our business, operating results and financial condition.

Competition and Technological Change

The industry in which we operate is highly competitive and we have numerous domestic and foreign competitors, including major pharmaceutical and chemical companies, specialized biotechnology companies, universities, academic institutions, government agencies, public and private research organizations and large, fully-integrated pharmaceutical companies which have extensive resources and experience in research and development, process development, clinical evaluation, manufacturing, regulatory affairs, distribution and marketing. Many of our potential competitors possess substantially greater research and development skills, financial, technical and marketing expertise and human resources

[Table of Contents](#)

than we do, and may be better equipped to develop, manufacture and market products. There is a risk that new products and technologies may be developed which may be more effective or commercially viable than the product being developed or marketed by us, thus making our product non-competitive or obsolete. There may also be market resistance to the acceptance of our new product in any indication and a risk that the product, even though clinically effective, is not economically viable in the commercial production stage.

Reliance on Partners

Our strategy and success for the research, development, and commercialization of voclosporin in China is dependent upon the activities of third parties with rights to voclosporin in those jurisdictions. The amount and timing of resources such third parties will devote to these activities may not be within our control. There can be no assurance that those third parties will perform as expected.

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

Reliance on Other Third Parties

We depend on third parties for the sourcing of components or for the product itself. Furthermore, as with other pharmaceutical companies, we rely on medical institutions for testing and clinically validating our prospective product. We do not anticipate any difficulties in obtaining required components or products or any difficulties in the validation and clinical testing of our product but there is no guarantee that they will be obtained.

We currently rely on CROs for the conduct of our clinical trials. These CROs operate in accordance with good clinical management practices mandated by the regulatory authorities and are subject to regular audits by regulatory authorities and by us.

We also have arrangements for the encapsulation, packaging and labeling of voclosporin through third party suppliers. Contract manufacturers must operate in compliance with regulatory requirements. Failure to do so could result in, among other things, the disruption of product supplies.

Marketing and Distribution

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

Health Care Reimbursement

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

Unauthorized Disclosure of Confidential Information

There may be an unauthorized disclosure of the significant amount of confidential information under our control. We maintain and manage confidential information relating to our technology, research and development, production, marketing and business operations and those of our collaborators, in various forms. Although we have implemented controls to protect the confidentiality of such information, there can be no assurance that such controls will be effective. Unauthorized disclosures of such information could subject us to complaints or lawsuits for damages, in Canada or other jurisdictions, or could otherwise have a negative impact on our business, financial condition, results of operations, reputation and credibility.

Use of Hazardous Materials

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

[Table of Contents](#)

Liability and Insurance

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

We entered into indemnification agreements with our officers and directors. The maximum potential amount of future payments required under these indemnification agreements is unlimited. However, we currently maintain director and officer liability insurance coverage of US\$35 million to reduce our exposure.

Financial instruments and Risks

We are exposed to credit risks and market risks related to changes in interest rates and foreign currency exchange, each of which could affect the value of our current assets and liabilities. We invest our cash reserves in U.S. dollar denominated, fixed rate, highly liquid and highly rated financial instruments such as treasury notes, banker acceptances, bank bonds, and term deposits. We do 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 our investment portfolio, due to the short-term nature of the investments and our current ability to hold these investments to maturity.

We are exposed to financial risk related to the fluctuation of foreign currency exchange rates which could have a material effect on our 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 our operating and financial results. We hold our cash reserves in US dollars and the majority of our expenses, including clinical trial costs are also denominated in US dollars, which mitigates the risk of material foreign exchange fluctuations.

RISKS RELATED TO OUR SECURITIES

There is no assurance of a sufficient liquid trading market for our Common Shares in the future.

Our shareholders may be unable to sell significant quantities of Common Shares into the public trading markets without a significant reduction in the price of their Common Shares, or at all. There can be no assurance that there will be sufficient liquidity of our Common Shares on the trading market, and that we will continue to be listed on the TSX or the NASDAQ or achieve listing on any other public listing exchange.

Raising additional capital may cause dilution to our shareholders, restrict our operations or require us to relinquish rights to our technologies or drug candidate.

In order to meet our future financing needs, we may issue a significant amount of additional Common Shares, Warrants, subscription receipts, debt securities, Units, or other equity or debt securities. The precise terms of any future financing will be determined by us and potential investors and such future financings may significantly dilute our shareholders' percentage ownership. Additionally, if we raise additional funds through collaborations, strategic alliances or marketing, distribution or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or drug candidate or grant licenses on terms that may not be favourable to us and/or that may reduce the value of the Common Shares.

Volatility of Share Price

The market prices for the securities of biotechnology companies, including ours, have historically been volatile. The market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of any particular company.

The trading price of the Common Shares could continue to be subject to wide fluctuations in price in response to various factors, many of which are beyond our control, including the results and adequacy of our preclinical studies and clinical trials, as well as those of our collaborators, or our competitors; other evidence of the safety or effectiveness of our products or those of our competitors; announcements of technological innovations or new products by us or our competitors; governmental regulatory actions; developments with collaborators; developments (including litigation) concerning our patent or other proprietary rights of competitors; concern as to the safety of our products; period-to-period fluctuations in operating results; changes in estimates of our performance by securities analysts; market conditions for biotechnology stocks in general; and other factors not within our control could have a significant adverse impact on the market price of the Common Shares, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. A class action suit against us could result in substantial costs, potential liabilities and the diversion of management's attention and resources.

There is no guarantee that an active trading market for the Common Shares will be maintained on either the TSX or NASDAQ. Investors may not be able to sell their Common Shares quickly or at the latest market price if the trading in the Common Shares is not active.

We expect to issue Common Shares in the future. Future issuances of Common Shares, or the perception that such issuances are likely to occur, could affect the prevailing trading prices of the Common Shares. In addition, the existence of Warrants or debt securities with conversion features may encourage short selling by market participants.

[Table of Contents](#)

Sales of Common Shares could cause a decline in the market price of the Common Shares. One of our major shareholders (ILJIN and its affiliates) owns an aggregate of approximately 14.97% of our outstanding Common Shares as at March 15, 2019. Any sales of Common Shares by these shareholders or other existing shareholders or holders of options may have an adverse effect on our ability to raise capital and may adversely affect the market price of the Common Shares.

Future issuances of equity securities by us or sales by our existing shareholders may cause the price of the Common Shares to fall.

The market price of the Common Shares could decline as a result of issuances of Securities or sales by our existing shareholders in the market, or the perception that these sales could occur. Sales of Common Shares by shareholders might also make it more difficult for us to sell Common Shares at a time and price that we deem appropriate. With an additional sale or issuance of Common Shares, investors will suffer dilution of their voting power and may experience dilution in earnings per share.

We may have broad discretion in the use of the net proceeds of an offering of the Securities and may not use them to effectively manage our business.

We may need to exercise broad discretion over the use of the net proceeds from a future offering of Common Shares. Because of the number and variability of factors that will determine our use of such proceeds, our ultimate use might vary substantially from our planned use. Investors may not agree with how we allocate or spend the proceeds from an offering of Common Shares. We may pursue acquisitions, collaborations or clinical trials that do not result in an increase in the market value of the Common Shares and may increase our losses.

We do not intend to pay dividends in the foreseeable future.

We have never declared or paid any dividends on the Common Shares. We intend, for the foreseeable future, to retain our future earnings, if any, to finance our commercial activities and further research and the expansion of our business. As a result, the return on an investment in Common Shares will likely depend upon any future appreciation in value, if any, and on a shareholder's ability to sell Common Shares. The payment of future dividends, if any, will be reviewed periodically by our Board and will depend upon, among other things, conditions then existing including earnings, financial conditions, cash on hand, financial requirements to fund our commercial activities, development and growth, and other factors that our Board may consider appropriate in the circumstances.

We may be a PFIC for U.S. tax purposes, which may result in adverse tax consequences for U.S. investors.

If we are characterized as a PFIC, there may be adverse tax consequences for U.S. investors. Generally, if for any taxable year 75% or more of our gross income is passive income, or at least 50% of the average quarterly value of our assets are held for the production of, or produce, passive income, we would be characterized as a PFIC for U.S. federal income tax purposes. Based on the nature of our income and the value and composition of our assets, we do not believe we were a PFIC during 2018. While we also do not believe we will be a PFIC for the current taxable year, because PFIC status is determined on an annual basis and generally cannot be determined until the end of the taxable year, there can be no assurance that we will not be a PFIC for the current or future taxable years. If we are characterized as a PFIC, our shareholders who are U.S. holders may suffer adverse tax consequences, including the treatment of gains realized on the sale of our ordinary shares as ordinary income, rather than as capital gain, the loss of the preferential rate applicable to dividends received on our ordinary shares by individuals who are U.S. holders, and the addition of interest charges to the tax on such gains and certain distributions. A U.S. shareholder of a PFIC generally may mitigate these adverse U.S. federal income tax consequences by making a "qualified electing fund" election, or, to a lesser extent, a "mark to market" election.

You may be unable to enforce actions against us, or certain of our directors and officers under U.S. federal securities laws.

As a corporation organized under the laws of Alberta, Canada, it may be difficult to bring actions under U.S. federal securities law against us. Most of our directors and officers reside principally in Canada or outside of the United States. Because all or a substantial portion of our assets and the assets of these persons are located outside of the United States, it may not be possible for investors to effect service of process within the United States upon us or those persons. Furthermore, it may not be possible for investors to enforce against us or those persons in the United States, judgments obtained in U.S. courts based upon the civil liability provisions of the U.S. federal securities laws or other laws of the United States. There is doubt as to the enforceability, in original actions in Canadian courts, of liabilities based upon U.S. federal securities laws and as to the enforceability in Canadian courts of judgments of U.S. courts obtained in actions based upon the civil liability provisions of the U.S. federal securities laws. Therefore, it may not be possible to enforce those actions against us or certain of our directors and officers.

Adverse capital market conditions could affect our liquidity.

Adverse capital market conditions could affect our ability to meet our liquidity needs, as well as our access to capital and cost of capital. We need additional funding to continue development of our internal pipeline and collaborations in the future. Our results of operations, financial condition, cash flows and capital position could be materially affected by disruptions in the capital markets.

DIVIDEND POLICY

We have not paid dividends on our outstanding Common Shares in the past and have no established dividend policy for our Common Shares. We plan to use future earnings, if any, to finance further research and development and the expansion of our business and do not anticipate paying out dividends on our Common Shares in the foreseeable future. The payment of future dividends, if any, will be reviewed periodically by our Board and will depend upon, among other things, conditions then existing including earnings, financial conditions, cash on hand, financial

[Table of Contents](#)

requirements to fund our commercial activities, development and growth, and other factors that our Board may consider appropriate in the circumstances.

CAPITAL STRUCTURE

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

The holders of Common Shares are entitled to receive notice of and attend all meetings of shareholders, with each Common Share held entitling the holder to vote on any resolution to be passed at such shareholder meetings. The holders of Common Shares are entitled to dividends if, as and when declared by the Board. The Common Shares are entitled upon liquidation, dissolution or winding up of Aurinia, to receive the remaining assets of Aurinia available for distribution to shareholders. There are no pre-emptive, redemption, purchase or conversion rights attached to our Common Shares.

As at March 15, 2019, we had 91.64 million Common Shares issued and outstanding.

In addition, as of March 15, 2019 there were 8.35 million Common Shares issuable upon the exercise of outstanding stock options and 3.27 million Common Shares reserved for future grant or issuance under our stock option plan.

We also have 3.52 million Warrants (exercisable into Common Shares) outstanding as at March 15, 2019.

For additional information on stock options and Warrants, please see notes 11 and 12 to our annual consolidated financial statements for the year ended December 31, 2018 which can be retrieved under the Company's profile on either of the SEDAR or EDGAR websites.

TRADING PRICE AND VOLUME OF AURINIA SHARES

Our Common Shares are listed and posted for trading on the NASDAQ under the symbol "AUPH", and on the TSX under the symbol "AUP".

The following table sets forth, for the 12-month period ended December 31, 2018, the reported high and low prices (in United States dollars) and the volume of shares traded for each month on NASDAQ.

NASDAQ

<u>Month</u>	<u>Price Range (US\$)</u>		<u>Total Volume</u>
	<u>High</u>	<u>Low</u>	
January 2018	6.11	4.52	22,658,500
February 2018	5.77	4.76	12,473,400
March 2018	5.99	5.05	14,842,415
April 2018	5.65	5.01	9,900,016
May 2018	6.69	5.11	15,540,613
June 2018	6.35	5.33	9,998,308
July, 2018	6.09	5.25	8,032,718
August 2018	5.90	5.22	8,509,820
September 2018	6.68	5.33	11,880,623
October 2018	6.65	5.06	12,674,871
November 2018	6.15	5.10	9,753,900
December 2018	7.24	5.50	16,517,000

The following table sets forth, for the 12-month period ended December 31, 2018, the reported high and low prices (in Canadian dollars) and the volume of shares traded for each month on the TSX.

Table of Contents

TSX

<u>Month</u>	<u>Price Range (CDNS)</u>		<u>Total Volume</u>
	<u>High</u>	<u>Low</u>	
January 2018	7.58	5.70	1,344,258
February 2018	7.32	5.98	854,513
March 2018	7.82	6.49	973,583
April 2018	7.14	6.44	535,379
May 2018	8.55	6.58	1,012,726
June 2018	8.35	7.02	652,433
July, 2018	8.01	6.83	464,882
August 2018	7.64	6.81	433,588
September 2018	8.65	6.99	677,331
October 2018	8.60	6.61	908,262
November 2018	8.15	6.69	839,112
December 2018	9.87	7.41	1,328,591

ESCROWED SECURITIES

There are no securities of the Company subject to escrow.

PRIOR SALES

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

STOCK OPTIONS

<u>Date</u>	<u>Type of Security</u>	<u>Price per Security (CDNS)</u>	<u>Number of Securities</u>	<u>Expiry Date</u>
February 1, 2018	Stock Options	6.52	2,178,000	February 1, 2028
February 5, 2018	Stock Options	6.42	550,000	February 5, 2028
February 9, 2018	Stock Options	6.40	50,000	February 9, 2028
February 22, 2018	Stock Options	6.92	50,000	February 22, 2028
March 21, 2018	Stock Options	7.06	150,000	March 21, 2028
October 17, 2018	Stock Options	7.70	25,000	October 17, 2028
Total:			3,003,000	

DIRECTORS AND EXECUTIVE OFFICERS

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

As at March 15, 2019, the names and municipalities of residence of our directors and executive officers and their principal occupations within the five preceding years are set forth below:

[Table of Contents](#)

Name, province or state, and country of residence	Position with the Company	Director/Officer since	Principal Occupation for Five Preceding Years
Richard Glickman <i>Victoria, British Columbia Canada</i>	Director, Chairman of the Board and CEO	August 2013	CEO of Aurinia since February 2017; Chairman of the Board at Aurinia since August 2013.
Dennis Bourgeault <i>Edmonton, Alberta Canada</i>	CFO	May 1998	CFO of Aurinia since May 1998.
Michael R. Martin <i>Victoria, British Columbia Canada</i>	COO	September, 2013	COO of Aurinia since September 2013.
Neil Solomons <i>Victoria, British Columbia Canada</i>	CMO	September 2013	CMO of Aurinia since September 2013.
Robert Huizinga <i>North Saanich, British Columbia Canada</i>	Executive Vice President, Corporate Development	August 2011	Executive Vice President, Corporate Development of Aurinia since May 2017; Vice President, Clinical Affairs of Aurinia from August 2011 to May 2017.
Erik Eglite <i>Lake Forest, Illinois United States</i>	Senior Vice President, General Counsel & Chief Corporate Compliance Officer	July 2017	Senior Vice President, General Counsel & Chief Corporate Compliance Officer of Aurinia since July 2017; Vice President, Chief Compliance Officer and Corporate Counsel for Marathon Pharmaceuticals and Vice President, Chief Compliance Officer and Corporate Counsel for Lundbeck Pharmaceuticals. Prior to that, Vice President, Chief Compliance Officer and Corporate Counsel for Ovation Pharmaceuticals and Global Chief Compliance Officer, Corporate Counsel for Aspreva Pharmaceuticals.
Benjamin Rovinski <i>Toronto, Ontario Canada</i>	Director, Chair of the Compensation Committee	September 2013	Managing Director at Lumira Capital, a North American health care and life science venture capital firm.
David R.W. Jayne <i>Cambridge United Kingdom</i>	Director	May 2015	Certified nephrologist, Director of the Vasculitis and Lupus Clinic and Reader at The University of Cambridge, UK.
Hyuek Joon Lee <i>Seoul South Korea</i>	Director	May 2015	Managing Director of Business Development for ILJIN Group since December 2016; prior to that, Director of New Business Development for ILJIN Group, a Korean industrial conglomerate;
Lorin J. ("Jeff") Randall <i>Kennett Square, Pennsylvania United States</i>	Lead Director, Chair of the Audit Committee	November 2016	Corporate director.
George M. Milne, Jr. <i>Boca Grande, Florida United States</i>	Director, Chair of the Governance and Nominating Committee	May 2017	Corporate director.
Joseph P. ("Jay") Hagan <i>La Jolla, California United States</i>	Director	February 2018	President and CEO of Regulus Therapeutics Inc., a clinical stage biopharmaceutical company, since May 2017; CFO of Regulus from January 2016 to May 2017; prior thereto held various positions at Orexigen Therapeutics, Inc. and Amgen.
Michael Hayden <i>Vancouver, British Columbia Canada</i>	Director, Chair of the Standing Research Committee	February 2018	Corporate director; previously President of Global R&D and CSO at Teva Pharmaceutical Industries Limited.

Directors and executive officers of the Company, as of March 15, 2019, beneficially own, directly or indirectly, 1,913,202 Common Shares in the aggregate, representing 2.09% of the outstanding Common Shares of the Company.

EXECUTIVE OFFICERS AND DIRECTORS

The following are brief biographies of our executive officers and directors.

Richard M. Glickman, LLD (Hon), CEO and Chairman of the Board

Dr. Glickman presently serves as the Company's CEO and Chairman of the Board. In addition to being a founder of the company, he previously served as the Interim Executive Chairman of the Company for the period September 20, 2013 to February 28, 2014 and as Acting Interim CEO for the period October 22, 2013 to November 5, 2013. He was a co-founder, Chairman and CEO of Aspreva, playing an integral role in the development and establishment of CellCept®, or MMF, as the current standard of care for LN. Aspreva was acquired by Swiss pharmaceutical company Galenica for nearly US\$1.0 billion in 2008. He currently serves as founding Chairman of Essa Pharmaceuticals Inc., Chairman of the Board of Engene Corporation and a Director of Correvio Pharma. He is also a Partner at Lumira Capital, one of Canada's most successful healthcare focused venture capital firms. Dr. Glickman has served on numerous biotechnology and community boards, including member of the federal government's National Biotechnology Advisory Committee, Director of the Canadian Genetic Disease Network, Chairman of Life Sciences B.C. and a member of the British Columbia Innovation Council. Dr. Glickman is the recipient of numerous awards including the Ernst and Young Entrepreneur of the Year, a recipient of both BC and Canada's Top 40 under 40 award, the BC Lifesciences 2018 Leadership Award and the 2017 Corporate Leadership Award from the Lupus Foundation of America.

Dennis Bourgeault, CPA-CA, CFO

Dennis Bourgeault has been the CFO of the Company since 1998 and is responsible for the financial and administrative operations of the Company. During his tenure, he contributed significantly to one of the largest Canadian biotechnology PIPE transactions, totaling US\$52 million US dollars and was involved in the multi-million-dollar Roche licensing agreement of voclosporin in 2002. In addition, he played a crucial role in executing the merger of Isotechnika and then privately held Aurinia Pharmaceuticals in September 2013. For six years prior to joining Isotechnika, he was the controller for a private industrial distribution company and a Senior Manager in public accounting at KPMG. Mr. Bourgeault obtained his Chartered Accountant designation in 1984.

Michael R. Martin, COO

Michael Martin is currently COO of Aurinia Pharmaceuticals Inc. In this role he oversees all Business Development, Licensing and Partner Management activities along with overall management of the Company's intellectual property portfolio. Additionally, Michael is responsible for the executive leadership of Aurinia's ocular program. Michael was formerly CEO, director and co-founder of the privately held Aurinia Pharmaceuticals Inc., which merged in 2013 with the former Isotechnika Pharma Inc. Michael is a biotech/pharmaceutical executive with over 20 years of industry experience. Michael joined Aurinia from Vifor Pharma where he held the position of Director, Global Business Development & Licensing. Prior to Vifor, Michael was a key member of the business development team that saw Aspreva sold to Galenica for US\$915M. Upon joining Aspreva in 2004, Michael initiated the strategic launch planning process for CellCept® in "less-common" autoimmune diseases. These included such indications as pemphigus vulgaris, myasthenia gravis, and lupus nephritis. Prior to this, Michael held a variety of progressively senior commercial positions at Schering-Plough (now Merck). Most recently, he was responsible for the Rheumatology business unit for Remicade® in France. In this role, he had full profit and loss responsibilities and had direct responsibility for the sales team, the marketing team and the infusion access team. In addition, while at Schering-Plough, Michael was the brand manager responsible for the Canadian launch of Remicade (infliximab), which ultimately became the most successful product launch in Canadian history and the largest selling biologic ever. Michael started his career in the industry in the sales organization of Schering-Plough where he received multiple awards and recognition while rapidly progressing towards the prior mentioned roles.

Neil Solomons, MD, CMO

Dr. Neil Solomons co-founded privately-held Aurinia Pharmaceuticals in 2012. He is an experienced pharmaceutical physician with over 20 years of clinical development and medical affairs experience in both large pharma and biotech. He is a recognized expert in rare-disease drug development and is widely published in this field. Neil joined Aurinia from Vifor Pharma, formerly Aspreva Pharmaceuticals (NASDAQ:ASPV) where he held the position of Vice President, Research and Development, being the lead clinician in the development of CellCept® in rare diseases. Neil led the CellCept® Clinical Development teams of over 50 people that saw the completion, reporting, and publication of studies in pemphigus vulgaris and myasthenia gravis (both industry firsts), and the successful landmark lupus nephritis study called ALMS. He was responsible for all clinical development activities from Phases 1 to 3, as well as participating in the formulation of R&D strategy, portfolio management, and due diligence efforts. Prior to Vifor & Aspreva, Neil held a variety of positions at Roche in both Global Clinical Development and Medical Affairs in transplantation, virology, and auto-immune diseases. While at Roche, Dr. Solomons led a diverse team in the development and implementation of post-marketing studies for its transplantation (CellCept® and Zenapax®) and virology (Cytovene®) franchises. Neil qualified in medicine in 1991 receiving his MB BS (MD) at Guys Hospital Medical School, London. He subsequently worked as a physician in London UK, completing specialist training in anesthesia and intensive care. His research interests included sepsis and chronic pain.

Robert B. Huizinga, PhD RN, CNeph(C), Executive Vice President, Corporate Development

Robert Huizinga has more than 25 years of clinical research experience. He has managed the global clinical development of voclosporin since 2002 when he was with Isotechnika Pharma Inc. prior to its merger with Aurinia in 2013. Before joining Isotechnika, Rob was an Investigator in nephrology and transplantation clinical trials where he was involved in more than 60 clinical trials from Phase 1 through Phase 4 and the successful development of numerous compounds including CellCept®, Neoral®, Prograf®, Aranesp® and Simulect®. He has acted as a consultant to nephrology and transplantation pharmaceutical companies, has lectured extensively and is recognized as an expert in immunosuppression drug development. Rob has numerous articles published in leading medical journals, including the Lancet, Kidney International and the American

[Table of Contents](#)

Journal of Transplantation. He is a member of many professional societies related to nephrology, transplantation, and nursing, has served on many nephrology and transplantation committees and is the founder of RenalPro, a moderated forum for renal professionals. Rob has a PhD (Organizational Leadership) from Regent University, is a Registered Nurse in British Columbia, holds his certification in Nephrology, a M.Sc. in Medicine (Epidemiology) from the University of Alberta, and a member of Sigma Theta Tau (Honor Society of Nursing).

Erik Eglite, DPM, JD, MBA, Senior Vice President, General Counsel & Chief Corporate Compliance Officer

Prior to joining Aurinia, Erik was Vice President, Chief Compliance Officer and Corporate Counsel for Marathon Pharmaceuticals and Vice President, Chief Compliance Officer and Corporate Counsel for Lundbeck Pharmaceuticals. Prior to that, he was Vice President, Chief Compliance Officer and Corporate Counsel for Ovation Pharmaceuticals and Global Chief Compliance Officer, Corporate Counsel for Aspreva Pharmaceuticals. Erik has been involved with the clinical development, launch and commercialization of 15 drugs and drug programs. He is a nationally recognized and frequent speaker on pharmaceutical law. Before entering the pharmaceutical industry, Erik worked as Assistant General Counsel for the Department of Human Services and as a medical malpractice, product liability defense litigation and intellectual property, patent attorney for Querry & Harrow in Chicago, Illinois. He is a licensed podiatric physician and surgeon and is registered to practice before the USPTO, the United States Court of Appeals for the Federal Circuit, the United States Court of Appeals for the District of Columbia Circuit and the United States Seventh Circuit Court of Appeals. Erik has a M.B.A. from the University of Notre Dame. He also holds a B.S. in Biology, a B.A. in History, M.Sc. Cand. in Chemistry, and a J.D. from Loyola University of Chicago. He graduated from Des Moines University Iowa Medical School with a Doctorate in Podiatric Medicine and Surgery, after which he completed his residency training at Michigan Health Medical Center Hospital. He also completed his medical/surgical externships at the University of Chicago, Department of Surgery, Division of Vascular Surgery and Northwestern University Columbus Cabrini Hospital, Department of Orthopedic/Podiatric Surgery. He has a graduate certificate in Pharmaceutical & Medical Device Law from Seton Hall School of Law, an Executive Certificate in Corporate Governance from Northwestern University Kellogg School of Management and an Executive Certificate in Business Administration from the University of Notre Dame. Currently, he is completing his M.S. in Regulatory Compliance at Northwestern University.

Lorin Jeffry Randall, MBA, Lead Director, Chair of the Audit Committee

Mr. Jeff Randall has over 30 years of experience serving in financial and operating roles spanning biotechnology, pharmaceuticals and manufacturing. He has led a number of companies through multi-million-dollar financings and mergers and acquisitions. In addition to his current board positions, Mr. Randall served on the board of directors of Nanosphere, Inc. from 2008 to 2016, most recently as Chairman of the Board. From 2004 to 2006, Mr. Randall, a financial consultant, was Senior Vice President and CFO of Eximias Pharmaceutical Corporation, a development-stage drug development company. Mr. Randall holds a Bachelor of Science in Mathematics and Accounting from Pennsylvania State University and a Master's in Business Administration from Northeastern University.

Benjamin Rovinski, PhD, Director, Chair of the Compensation Committee

Dr. Benjamin Rovinski has 30 years of investment, operational, managerial and research experience in the healthcare sector. Dr. Rovinski joined Lumira Capital in 2001, where he is a Managing Director, with an investment focus on early- to late-stage private and public life sciences companies. Prior to joining Lumira Capital, he held several senior management positions in the biotechnology sector, including 13 years at Sanofi Pasteur where he was a senior scientist and director of molecular virology. Dr. Rovinski led global R&D programs in the areas of HIV/AIDS and therapeutic cancer vaccines, bringing several of them through to clinical-stage. Dr. Rovinski holds a Ph.D. in Biochemistry from McGill University in Montréal and did post-doctoral studies in Molecular Oncology and Retrovirology at the Ontario Cancer Institute in Toronto. He obtained his undergraduate degree from Rice University in Houston. His current and past board roles and investment responsibilities include several private and public companies, including Antios Therapeutics; Antiva Biosciences; GI Therapeutics (NASDAQ:GTHX); Vascular Pharmaceuticals; KAI Pharmaceuticals (acquired by Amgen); Morphotek (acquired by Eisai); Cervelo Pharmaceuticals; Health Hero Network (acquired by Bosch); Avalon Pharmaceuticals (NASDAQ: AVRX; acquired by Clinical Data, Inc.); Inovise Medical, Inc.; Protana; Signature Biosciences; and SGX Pharmaceuticals (NASDAQ: SGXP; acquired by Eli Lilly). He also serves on the board of directors of Life Sciences Ontario, Ontario Genomics, and the steering committee of the Toronto Regional Board of Trade's Health Science Cluster initiative. Dr. Rovinski has published over 25 scientific articles and reviews and is the recipient of 31 issued patents.

David R.W. Jayne, MD, FRCP, FRCPE, FmedSci, Director

Dr. David Jayne is Professor of Clinical Autoimmunity in the Department of Medicine at the University of Cambridge, UK. Dr. Jayne received his MB BChir in Surgery and Medicine from Cambridge University, Cambridge, England. He received postgraduate training at several London hospitals and Harvard University. He is a fellow of the Royal Colleges of Physicians of London and Edinburgh, and the Academy of Medical Science. He is a certified nephrologist and an Honorary Consultant Physician at Addenbrooke's Hospital, Cambridge UK. Dr. Jayne is a medical advisor to UK, U.S. and EU regulatory bodies, patient groups and professional organizations. He has published more than 400 peer-reviewed journal articles, book chapters and reviews. He was elected the first President of the European Vasculitis Society in 2011 and is a member of the ERA-EDTA immunopathology working group and he co-chairs the EULAR/ERA-EDTA task force on lupus nephritis. Dr. Jayne's research includes investigator-initiated international trials and the introduction of newer therapies in vasculitis and SLE with collaborators on five continents.

Hyuek Joon Lee, PhD, Director

Dr. Joon Lee is the Managing Director of Business Development for ILJIN Group and is responsible for mergers and acquisitions, and managing overseas investments, joint ventures and subsidiaries. As of October 2014, he joined the board of directors of Life Science Enterprises in Massachusetts, a privately held company focusing on advanced biomaterials that promote bone repair. Dr. Lee has over 20 years of experience in consulting, management, business development and strategic planning in a number of industries including information technology, chemical

Table of Contents

and media. Dr. Lee received his B.S. in Chemistry from Seoul National University, and his M.S.E. and Ph.D. in Chemical Engineering from the University of Michigan, Ann Arbor.

George M. Milne, Jr., PhD, Director, Chair of the Governance & Nomination Committee

Dr. Milne has over 30 years of experience in pharmaceutical research and product development. Dr. Milne currently serves on the boards of Amylyx Pharmaceuticals, Inc. and Charles River Laboratories, Inc. where he is the lead director. He has retired from Pfizer where he served as Executive Vice President of Global Research and Development and President, Worldwide Strategic and Operations Management. He joined Pfizer in 1970 and held a variety of positions conducting both chemistry and pharmacology research. Dr. Milne became director of the department of immunology and infectious diseases at Pfizer in 1981, was its executive director from 1984 to 1985, and was vice president of research and development from 1985 to 1988. He was appointed senior vice president in 1988. In 1993 he was appointed President of Pfizer Central Research and a senior vice president of Pfizer Inc. with global responsibility for human and veterinary medicine research and development. Dr. Milne has served on multiple corporate boards including Mettler-Toledo, Inc. (a manufacturer of laboratory instruments), MedImmune, Athersys, Biostorage Technologies, Aspreva and Conor Medsystems. Dr. Milne received his B.Sc. in Chemistry from Yale University and his Ph.D. in Organic Chemistry from MIT.

Joseph P. Hagan, MBA, Director

Mr. Hagan is President and CEO of Regulus Therapeutics. Mr. Hagan joined Regulus in January 2016 as COO, Principal Financial Officer and Principal Accounting Officer and was appointed to President and CEO in May 2017. Mr. Hagan's career includes roles as the Executive Vice President, CFO and Chief Business Officer of Orexigen Therapeutics, Inc., Managing Director of Amgen Ventures and head of corporate development for Amgen Inc. Mr. Hagan has led numerous strategic and financing transactions including the acquisitions of Immunex and Tularik and the spinout of Novantrone and Relyspa, as well as many other business development efforts totaling over US\$15 billion in value. Before joining Amgen, Mr. Hagan spent five years in the bioengineering labs at Genzyme and Advanced Tissue Sciences. Mr. Hagan currently serves on the board of directors of Zosano Pharma, a publicly traded biotechnology company. He received an M.B.A. from Northeastern University and a B.S. in Physiology and Neuroscience from the University of California, San Diego.

Michael Hayden, CM, OBC, MB, ChB, PhD, FRCP(C), FRSC, Director, Chair of the Standing Research Committee

Dr. Michael Hayden was recently named one of the 50 Canadians born in the 20th century who have changed the world. He is the co-founder of five biotechnology companies: Prilenia Therapeutics, 89Bio, NeuroVir Therapeutics Inc., Xenon Pharmaceuticals Inc., and Aspreva Pharmaceuticals Corp. Dr. Hayden sits on different boards including Xenon Pharmaceuticals and Ionis Pharmaceuticals. Author of over 860 peer-reviewed publications and invited submissions, Dr. Hayden has focused his research primarily on genetic diseases, including genetics of diabetes, lipoprotein disorders, Huntington disease, predictive and personalized medicine. Dr. Hayden was inducted into the Canadian Medical Hall of Fame in 2017. He was named one of PharmaVoice's "100 of the Most Inspiring People" (2015); awarded an Honorary Doctor of Science by the University of Gottingen (2014); the Luminary award by the Personalized Medicine World Conference (2014); and the Diamond Jubilee Medal (2012), on behalf of HRH Queen Elisabeth II, in recognition of his significant contributions and achievements. Dr. Hayden has also been awarded the Order of Canada (2011), and the Order of British Columbia (2010). He was named Canada's Health Researcher of the Year by CIHR (NIH of Canada) in 2008, and he received the Prix Galien in 2007, which recognizes the outstanding contribution of a researcher to Canadian pharmaceutical research.

COMMITTEES OF THE BOARD

We have four standing committees: the Audit Committee, the Governance and Nomination Committee, the Compensation Committee, and Standing Research Committee. Current members of these committees are identified in the following table:

<u>Committee</u>	<u>Members</u>
Audit Committee ⁽¹⁾	Lorin J. Randall (Chair) Benjamin Rovinski Hyuek Joon Lee
Governance and Nomination Committee	George M. Milne, Jr. (Chair) David Jayne Hyuek Joon Lee
Compensation Committee	Benjamin Rovinski (Chair) Lorin J. Randall Hyuek Joon Lee
Standing Research Committee	Michael Hayden (Chair) David Jayne

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

CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

No director or executive officer of the Company is, or has been within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company, including Aurinia, that:

- (a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was issued while the proposed director was acting in the capacity as a director, chief executive officer or chief financial officer; or
- (b) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while he was acting in the capacity of a director, chief executive officer or chief financial officer.

No director or executive officer of the Company, except as noted below, or shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- (a) is, or has been within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company, including Aurinia, that while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, chief executive officer or chief financial officer.

Mr. Lorin J. Randall was a director of Tengion, Inc. when it filed for Chapter 7 Liquidation in December of 2015 pursuant to the United States Bankruptcy Code.

No director or executive officer of the Company, or shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority;
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

As of March 15, 2019, we are not aware of any legal proceedings against us that would involve a claim for damages that exceed ten per cent of our current assets.

No penalties or sanctions have been imposed against us by a court relating to securities legislation or any securities regulatory authority during the financial year ended December 31, 2018, nor have we entered into any settlement agreements with a court relating to securities legislation or with a securities regulatory authority during such financial year. No other penalties or sanctions have been imposed by a court or regulatory body against us which would likely be considered important to a reasonable investor in making an investment decision respecting the Company.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

None of our directors or executive officers, persons or companies that beneficially own, control, or direct more than 10% of our voting securities, or an associate or affiliate of any of such directors, executive officers, persons or companies, had a material interest, directly or indirectly, in the transactions conducted by the Company within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company.

CONFLICTS OF INTEREST

To our knowledge, and other than as disclosed herein, there is no known existing or potential material conflicts of interest among the Company, its directors and officers, or a subsidiary of the Company or other members of management as a result of their outside business interests, except

Table of Contents

that certain of its directors may serve as directors of other companies and therefore it is possible that a conflict may arise between their duties to the Company and their duties as a director of such other companies. See *“Risk Factors - The Company is dependent upon its key personnel to achieve its business objectives”*.

TRANSFER AGENT AND REGISTRAR

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

MATERIAL CONTRACTS

We currently have the following material contracts:

1. Under the terms of an agreement dated February 14, 2014 between the Company and Dr. Robert Foster, whereby Dr. Robert Foster’s employment as CSO was terminated by the Company, it was confirmed that effective March 8, 2012, Dr. Foster was entitled to receive 2% of royalty licensing revenue for royalties received on the sale of voclosporin by licensees and/or 0.3% of net sales of voclosporin sold directly by the Company, to be paid quarterly as that revenue is received by the Company. Should the Company sell substantially all of the assets of voclosporin to a third party or transfer those assets to another party in a merger in a manner such that this payment obligation is no longer operative, then Dr. Foster will be entitled to receive 0.3% of the value attributable to voclosporin in the transaction.
2. The manufacturing collaboration and services agreement, dated November 22, 2016 between Lonza and the Company as described under the heading “Manufacturing, Encapsulating and Packaging of Voclosporin - Lonza Manufacturing Collaboration Agreement”.

INTERESTS OF EXPERTS

PricewaterhouseCoopers LLP, the Company’s auditor, issued an auditor’s report dated March 15, 2019 in respect of our Consolidated Financial Statements, which comprise the Consolidated Statements of Financial Position as at December 31, 2018 and December 31, 2017, and the Consolidated Statements of Operations and Comprehensive Loss, Consolidated Statements of Changes in Shareholders’ Equity and Cash Flows for the years ended December 31, 2018 and December 31, 2017, and the related notes. PricewaterhouseCoopers LLP has advised us that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta and the rules of the SEC.

ADDITIONAL INFORMATION

Additional information with respect to the Company, including directors’ and officers’ remuneration and indebtedness, principal holders of our Common Shares and securities authorized for issuance under equity compensation plans will be contained in the most recently filed management information circular of the Company. Additional financial information is also available in our comparative audited consolidated financial statements, together with the auditor’s report thereon, and the related Management Discussion and Analysis for its most recently completed fiscal year ended December 31, 2018.

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

SCHEDULE 1 - AUDIT COMMITTEE INFORMATION**1. The Audit Committee's Charter**

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

2. Composition and Relevant Education and Experience

The Audit Committee is comprised of three independent directors: Lorin J. Randall (Chair), Benjamin Rovinski and Hyuek Joon Lee. A description of the education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee member may be found above under the heading "Directors and Executive Officers".

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

3. Pre-approval Policies and Procedures

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

All fees for audit and audit related services performed by the external auditor for the year ended December 31, 2018 were pre-approved by the Audit Committee. All fees for non-audit related services performed by the external auditor for the year ended December 31, 2018 were pre-approved by the Audit Committee and/or Audit Chair as delegated by the Audit Committee.

4. External Auditor Service Fees (By Category)

The aggregate fees recorded for professional services rendered by the external auditor, PricewaterhouseCoopers LLP, for the Company and its subsidiaries for the years ended December 31, 2018 and 2017, respectively are as follows:

<u>Fiscal year ended</u>	<u>2018</u>	<u>% of Total Fees</u>	<u>2017</u>	<u>% of Total Fees</u>
Audit fees (for audit of the Company's annual financial statements and services provided in connection with statutory and regulatory filings) ⁽¹⁾	\$ 95,124	31.5%	\$ 130,583	50.2%
Audit related fees, including review of the Company's quarterly financial statements ⁽²⁾	\$ 40,825	13.5%	\$ 37,491	14.4%
Tax fees (tax compliance, tax advice and planning) ⁽³⁾	\$ 110,496	36.6%	\$ 44,935	17.3%
All other fees ⁽⁴⁾	\$ 55,647	18.4%	\$ 46,943	18.1%
Total fees	\$ 302,092	100.0%	\$ 259,952	100.0%

(1) These fees include professional services provided by the external auditor for the statutory audits of the annual financial statements. The total for 2018 is comprised of US\$56,910 related to interim billings for the 2018 audit and US\$38,214 related to fees for the 2017 audit billed in 2018. The total for 2017 is comprised of US\$61,688 related to interim billings for the 2017 audit and US\$68,895 related to fees for the 2016 audit billed in 2017.

(2) These fees relate to performing review engagement services on the Company's quarterly financial statements and other audit related services.

(3) These fees include professional services for transfer pricing, tax compliance, tax advice, tax planning and various taxation matters.

(4) These fees for 2018 include professional services for assistance in filing the new base shelf prospectus, prospectus supplement related to the re-sale of common shares, the November 2018 ATM prospectus supplement, and various other advisory services. These fees for 2017 include professional services for assistance in filing prospectus supplements for the December 2016 bought deal financing and the March 20, 2017 public offering, and the new preliminary base shelf prospectus.

SCHEDULE 2 - AUDIT COMMITTEE CHARTER

AURINIA PHARMACEUTICALS INC.

AUDIT COMMITTEE CHARTER

PURPOSE

The purpose of the Audit Committee of the Board of Directors of Aurinia Pharmaceuticals Inc. (the “*Company*”) shall be to assist the Board of Directors of the Company (the “*Board*”) in its oversight of (i) the quality and integrity of the financial statements of the Company, (ii) the Company’s compliance with legal and regulatory requirements, (iii) the accounting and financial management processes of the Company, and the effectiveness of the Company’s internal controls over financial reporting, (iv) the quality and integrity of the annual audit of the Company’s financial statements, including the independence and qualifications of the Company’s independent auditor.

MEMBERSHIP

1. **Composition**

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

2. **Appointment and Replacement of Committee Members**

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

3. **Financial literacy**

All members of the Committee should be “financially literate” (as that term may be defined from time to time under the requirements or guidelines for audit committee service under applicable Securities Laws and the Exchange Rules) or must become financially literate within a reasonable period of time after his or her appointment to the Committee.

In addition, at least one member must have past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background which results in the individual’s financial sophistication. Unless otherwise determined by the Board, at least one member of the Audit Committee shall be an “audit committee financial expert”.

RESPONSIBILITIES AND DUTIES

The principal responsibilities and duties of the Committee in serving the purposes outlined above in this charter are set forth below. These duties are set forth as a guide with the understanding that the Committee will carry them out in a manner that is appropriate given the Company’s needs and circumstances. The Committee may supplement them as appropriate and may establish policies and procedures from time to time that it deems necessary or advisable in fulfilling its responsibilities.

A. **INDEPENDENT AUDITOR**

1. ***Appointment and Oversight of Independent Auditor.*** The Committee recommends to the Board for nomination the independent auditor to examine the Company’s accounts, controls and financial statements. The Committee has sole responsibility for the compensation, retention, oversight and, if necessary, termination of any independent auditor (including resolution of disagreements between the Company’s management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, and the independent auditor and will report directly to the Committee.

2. ***Auditor Independence and Qualifications***

(a) The Committee is responsible for assessing the independent auditor’s qualifications, performance and independence annually, and for taking, or recommending that the full Board take, appropriate action to oversee the independence of the independent auditor.

Table of Contents

In connection therewith, the Committee will:

(i) make sure it reviews, on an annual basis, all relationships between the independent auditor and the Company, including those described in the formal written statement that the Committee obtains annually from the independent auditor under applicable requirements of the Canadian generally accepted auditing standards (CAS) and the Public Company Accounting Oversight Board (the “PCAOB”) related to the independent auditor’s communications with the Committee concerning independence; and

(ii) actively engage in a dialogue with the independent auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditor.

(b) The Committee will obtain and review, at least annually, a report from the independent auditor describing:

(i) the independent auditor’s internal quality-control procedures; and

(ii) any material issues raised by the most recent internal quality-control review, peer review Canadian Public Accountability Board (CPAB) or PCAOB review of the independent auditor, or by any governmental or professional authority in any inquiry or investigation, within the preceding five years, regarding any independent audit carried out by the independent auditor, and any steps taken to address any such issues.

(c) The Committee is responsible for reviewing and evaluating the lead audit partner of the independent auditor and overseeing the rotation of the lead audit partner as required by applicable law. In

making its evaluation, the Committee should take into account the opinions of management and the independent auditor.

(d) The Committee will set policies for the Company’s hiring of employees or former employees of the present and former independent auditor.

3. *Approval of Audit and Non-Audit Services*

(a) The Committee will review the independent auditor’s audit planning, scope and staffing.

(b) The Committee must pre-approve all audit and non-audit related services provided to the Company by the independent auditor. The Committee may establish pre-approval policies and procedures, as permitted by the Exchange Rules, Securities Laws and applicable law, for the engagement of the independent auditor to render services to the Company, including, without limitation, policies that would allow the delegation of pre-approval authority to one or more members of the Committee, provided that any pre-approval decision is reported to the Committee at its next scheduled meeting.

4. *Interaction with Independent Auditor*

(a) The Committee will, to the extent warranted, discuss with the independent auditor the reports referenced in section 2(b) and any other matters required to be reviewed under applicable legal and regulatory requirements.

(b) The Committee will periodically consult with the independent auditor, out of the presence of the Company’s management, about the Company’s internal controls, the fullness and accuracy of the Company’s financial statements, the responsibilities, budget and staffing of the Company’s finance function, and any other matters that the Committee or independent auditor believes should be discussed privately out of the presence of management.

B. FINANCIAL STATEMENTS AND DISCLOSURES

1. *Annual Financial Statements and Disclosures*

(a) Before public disclosure, the Committee will meet to review and discuss with the independent auditor and the Company’s management the Company’s audited consolidated financial statements and the notes and Managements’ Discussion and Analysis relating to such consolidated financial statements, the annual report, the annual information form, the financial information of the Company contained in any prospectus or information circular or other disclosure documents or regulatory filings of the Company, the recommendations for approval of each of the foregoing from each of the President and Chief Executive Officer, and Chief Financial Officer of the Company and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public.

(b) The Committee will discuss with the independent auditor and the Company’s management any items appropriate or required to be discussed in accordance with applicable auditing and CPAB standards in connection with the preparation of the Company’s annual financial statements, including any problems or difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information, and any significant disagreements with management and management’s response to such difficulties.

Table of Contents

2. ***Quarterly Financial Statements and Disclosures***

(a) The Committee will meet to review and discuss with the independent auditor and the Company's management the Company's interim consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements before public disclosure, and either, in the discretion of the Audit Committee, (A) approve and release each of the foregoing to the public, or (B) provide, where applicable, its own recommendation to the Board for their approval and release of each of the foregoing to the public.

(b) The Committee will discuss with the independent auditor and the Company's management any items appropriate or required to be discussed in accordance with applicable auditing and CPAB standards in connection with the preparation of the Company's quarterly financial statements.

3. ***Earnings Announcements and Guidance.*** The Committee will discuss generally with the Company's management and the independent auditor, as appropriate, the type of information to be disclosed and type of presentation to be made regarding the Company's earnings press releases.

4. ***Ongoing Reviews.*** In connection with the foregoing, the Committee will review the Company's financial reporting and accounting standards and principles and financial statement presentations, significant changes in the selection of such standards or principles or in their application and the key accounting decisions affecting the Company's financial statements, including alternatives to, and the rationale for, the decisions made. As part of this review, the Committee will discuss with the Company's management and the independent auditor the reasonableness of judgments and estimates used in the preparation of financial statements, and alternative accounting treatments, principles or practices that were considered or may be preferred by the independent auditor, the Committee or the Company's management.

C. **CONTROLS AND PROCEDURES**

1. ***Review of Processes, Systems, Controls and Procedures.*** The Committee will periodically review and meet separately with the independent auditor, or other personnel primarily responsible for the internal control, and the Company's management to discuss their periodic reviews of the integrity, adequacy and effectiveness of the Company's accounting and financial reporting processes, systems of internal control (including any significant deficiencies and material weaknesses in their design or operation), and disclosure controls and procedures (and management's reports thereon), as well as any special audit steps adopted in light of material control deficiencies. The Committee shall receive and review the required applicable annual or quarterly CEO and CFO certification reports prior to these documents being filed as required by the regulators.

2. ***Legal Matters***

(a) The Committee will periodically review with the Company's management and the Company's legal counsel, the nature and status of significant legal matters.

(b) The Committee will review and monitor any significant pending or threatened litigation that could have a material impact on the Company's financial statements.

3. ***Risk Assessment and Risk Management.*** The Committee is responsible for overseeing the management of risks associated with the Company's financial reporting, accounting and auditing matters, reviewing as required the Company's processes around the management and monitoring of such risks, including but not limited to, review and assessment of the company investment policy and performance and review and assessment of the company's insurance policies. The Committee will discuss with the Company's management the Company's major financial, accounting and reporting risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies and guidelines.

4. ***Whistleblower Procedures.*** The Committee is responsible for establishing and overseeing procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, the prompt internal reporting of violations of the Code of Business Conduct and Ethics and for the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters.

D. **OTHER DUTIES AND RESPONSIBILITIES**

1. ***Code of Conduct.*** The Committee will periodically review and recommend to the Board any changes to the Code of Conduct applicable to the Company, including all of its directors, officers and employees. The Committee will also consider waivers of the Code of Conduct requested for executive officers and directors and retain sole authority to grant any waivers for executive officers and directors (other than where the potential waiver involves a member of the Committee, in which event such waiver shall be subject to the review of the Board). The Committee will also periodically review and recommend to the Board any changes to the Company's Insider Trading Policy and Anti-Bribery Policy, which are referenced in the Company's Code of Conduct.

2. ***Related Party Transactions.*** The Committee will review and, where appropriate, approve any transaction between the Company and any related party (other than transactions that are subject to review by the Board as a whole or any other committee of the Board), as defined

Table of Contents

by applicable law, Securities Laws and the Exchange Rules, and will periodically review the business interests and activities of members of the Board and management.

3. **Review of Composition and Performance.** The Committee will evaluate the Committee's composition and performance on an annual basis and submit a report to the Board.

4. **Review of this Charter.** The Committee will review and reassess the adequacy of this charter annually and recommend to the Board any changes the Committee determines are appropriate.

5. **Other Actions.** The Committee will perform any other activities required by applicable law, rules or regulations, including Securities Laws and the Exchange Rules, and take such other actions and perform and carry out any other responsibilities and duties delegated to it by the Board or as the Committee deems necessary or appropriate consistent with its purpose.

E. STUDIES AND ADVISERS

In discharging its responsibilities, the Committee may conduct, direct, supervise or authorize studies of, or investigations into, any matter that the Committee deems appropriate, with full and unrestricted access to all books, records, documents, facilities and personnel of the Company. The Committee has the sole authority to retain and terminate independent legal counsel and other consultants, accountants, experts and advisers of its choice to assist the Committee in connection with its functions, including any studies or investigations. The Committee will have the sole authority to approve the fees and other retention terms of such advisers. The Company will also provide for appropriate funding, as determined by the Committee, for:

- payment of compensation to the independent auditor and any legal and other consultants, accountants, experts and advisers retained by the Committee; and
- ordinary administrative expenses of the Committee that are necessary and appropriate in carrying out its functions.

F. MEETINGS AND ACTIONS

Meetings of the Committee shall be held at least once each quarter or more frequently, as determined to be appropriate by the Committee. The Board may appoint a member of the Committee to serve as the chairperson of the Committee (the "**Chair**"); if the Board does not appoint a Chair, the Committee members may designate a Chair by their majority vote. The Chair, in consultation with the other members of the Committee, will set the dates, time, places and agenda for Committee meetings. The Chair or any other member of the Committee may call meetings of the Committee by notice and the Committee may act by unanimous written consent in lieu of a meeting in accordance with the Company's Bylaws. A quorum of the Committee for the transaction of business will be a majority of its members. Meetings may be held in person or via telephone or video conference. The Committee also may act by unanimous written consent in lieu of a meeting in accordance with the Company's Bylaws. Subject to the requirements of this charter, applicable law, Securities Laws and the Commission Rules, the Committee and the Chair may invite any director, executive or employee of the Company, or such other person, as it deems appropriate in order to carry out its responsibilities, to attend and participate (in a non-voting capacity) in all or a portion of any Committee meeting. The Committee may meet in executive session at its discretion and may exclude from all or a portion of its meetings any person it deems appropriate in order to carry out its responsibilities. The Chair will designate a secretary for each meeting, who need not be a member of the Committee. The Company shall provide the Committee such staff support as it may require.

G. MINUTES AND REPORTS

The Committee will maintain written minutes of its meetings and copies of its actions by written consent, and will cause such minutes and copies of written consents to be filed with the minutes of the meetings of the Board. The Committee will report regularly to the Board with respect to its activities, including on significant matters related to the Committee's responsibilities and the Committee's deliberations and actions. The minutes of the Committee and actions by the unanimous written consent of the Committee members will be made available to the other members of the Board.

H. DELEGATION OF AUTHORITY

The Committee may from time to time, as it deems appropriate and to the extent permitted under applicable law, Securities Laws and the Commission Rules, the Company's articles of incorporation and Bylaws, form and delegate authority to subcommittees.

I. COMPENSATION

Members of the Committee will receive such fees, if any, for their service as Committee members as may be determined by the Board, which may include additional compensation for the Chair. Such fees may include retainers or per meeting fees and will be paid in such form of consideration as is determined by the Board in accordance with applicable law, Securities Laws and the Commission Rules.

Table of Contents

J. PUBLICATION

The Company shall make this charter freely available to stockholders on request and shall publish it on the Company's web site.

K. OVERSIGHT FUNCTION

This charter sets forth the authority and responsibility of the Committee in fulfilling the purposes described herein.

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

In addition, the Company's management is responsible for managing its risk function and for reporting on its processes and assessments with respect to the Company's management of risk. Each member of the Committee shall be entitled to rely on (a) the integrity of those persons and organizations within and outside of the Company from which it receives information, (b) the accuracy of the financial and other information provided to the Committee by such persons or organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board) and (c) representations made by management as to any audit and non-audit services provided by the independent auditor.

The Board has formed the Committee to assist the Board in directing the Company's affairs and this charter has been adopted in furtherance of this purpose. While this charter should be interpreted in the context of all applicable laws, regulations and listing requirements, as well as in the context of the Company's articles of incorporation and Bylaws, it is not intended to establish by its own force any legally binding obligations.

SCHEDULE 3 - GLOSSARY OF TERMS AND DEFINITIONS

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

"**2015 Base Shelf Prospectus**" means Aurinia's short form base shelf prospectus dated October 16, 2015;

"**AEs**" means adverse events;

"**AIF**" means the Annual Information Form of the Company dated March 15, 2019 for the fiscal year ended December 31, 2018;

"**ALMS**" means the Aspreva Lupus Management Study;

"**Anti-dsDNA**" means double-stranded DNA;

"**API**" means active pharmaceutical ingredient;

"**Aspreva**" means Aspreva Pharmaceuticals Inc.;

"**ATM**" means an At-the-Market Facility;

"**AURA-LV (AURA)**" means a Phase 2b clinical trial. The protocol is titled "*A Randomized, Controlled Double-blind Study Comparing the Efficacy and Safety of Voclosporin (23.7 mg BID, or 39.5 mg BID) with Placebo in Achieving remission in Patients with Active Lupus Nephritis*";

"**Aurinia**" means Aurinia Pharmaceuticals Inc.;

"**AURION**" means an open label exploratory study. The protocol is titled "*An Exploratory study assessing the Short term Predictors of Remission of Voclosporin 23.7 mg BID in combination with standard of care in Patients with Active Lupus Nephritis*";

"**AURORA**" means a single double-blind, randomized, placebo controlled Phase 3 clinical trial for voclosporin in the treatment of LN;

"**AURORA 2 extension trial**" means a 104-week blinded extension trial;

"**BID**" means administered twice a day;

"**Board**" means the board of directors of the Company;

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

"**Catalent**" means Catalent Pharma Solutions;

"**CellCept®**" means the brand name of MMF;

"**CEO**" means Chief Executive Officer;

"**CFO**" means Chief Financial Officer;

"**CMO**" means Chief Medical Officer;

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

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

"**Common Shares**" means common shares in the authorized share capital of the Company;

"**COO**" means Chief Operating Officer;

"**CR**" means complete remission;

"**CRO**" means Contract Research Organization;

"**CsA**" means cyclosporine A;

"**CSO**" means Chief Scientific Officer;

"**CTA**" means clinical trial application;

"**cyclosporine**" means a drug that suppresses the immune system and is used to prevent rejection following organ transplantation;

Table of Contents

"**DES**" means Dry Eye Syndrome;

"**December 2016 Warrants**" means the Common Share purchase warrants offered in connection with the US\$28.75 million financing (including US\$3.75 million pursuant to an exercise of the underwriters' over-allotment option) for the sale of 12,778,000 units which closed on December 28, 2016.

"**EDGAR**" means the Electronic Data Gathering, Analysis and Retrieval System;

"**eGFR**" means estimated glomerular filtration rate;

"**EMA**" means the European Medicines Agency;

"**ERA-EDTA**" means the 54th European Renal Association-European Dialysis and Transplant Association Congress;

"**ESRD**" means end-stage renal disease;

"**EU**" means European Union;

"**EULAR 2017**" means the European Annual Congress of Rheumatology;

"**Exchange Rules**" means the rules of any stock exchange on which the Company's shares are listed for trading;

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

"**FSGS**" means focal segmental glomerulosclerosis;

"**GMP**" means good manufacturing practices;

"**IEC**" means Independent Ethics Committee;

"**IFRS**" means International Financial Reporting Standards;

"**ILJIN**" means ILJIN SNT Co., Ltd.;

"**IND**" means investigational new drug;

"**IRB**" means Institutional Review Board;

"**ITT**" means intent to treat;

"**July 2016 ATM**" means the at the market offering of Common Shares with an aggregate offer price of up to US\$10 million;

"**LN**" means Lupus Nephritis;

"**Lonza**" means Lonza Ltd. a Swiss-based contract drug manufacturer;

"**Lux**" means Lux BioSciences, Inc.;

"**March Offering**" means the underwritten public offering of 25.64 million Common Shares, which included 3.35 million Common Shares issued pursuant to the full exercise of the underwriters' over-allotment option to purchase additional Common Shares;

"**MMF**" means mycophenolate mofetil;

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

"**MTT**" means multi-targeted therapeutic;

"**NASDAQ**" means the NASDAQ Global Market Exchange;

"**NCE**" means new chemical entity;

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

"**Notice of Allowance**" means the notice of allowance received from the USPTO for claims directed at our novel voclosporin dosing protocol for LN (U.S. patent application 15/835,219, entitled "PROTOCOL FOR TREATMENT OF LUPUS NEPHRITIS");

"**November 2016 ATM**" means the at the market offering of Common Shares having an aggregate offer price of up to US\$8.0 million;

"**NS**" means Nephrotic Syndrome;

"**Paladin**" means Paladin Labs Inc.;

Table of Contents

"**PCT**" means the Patent Cooperation Treaty, an international patent law treaty. It provides a unified procedure for filing patent applications to protect inventions in each of its contracting states;

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

"**PFIC**" means a passive foreign investment company;

"**PK-PD**" means pharmacokinetic and pharmacodynamics analysis;

"**PMDA**" means the Pharmaceutical and Medical Devices Agency. The PMDA is the main Regulatory Agency that oversees the review and approval of drugs as per the regulatory prerequisites in Japan;

"**PR**" means partial remission;

"**Registration Statement**" means Aurinia's shelf registration statement on Form F-10 dated October 16, 2015, declared effective on November 5, 2015;

"**SAE**" means serious adverse events;

"**SEC**" means the U.S. Securities and Exchange Commission;

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

"**Sharp Clinical**" means Sharp Clinical Services Inc.;

"**SLE**" means systemic lupus erythematosus;

"**SLEDAI**" means Systemic Lupus Erythematosus Disease Activity Index;

"**SOC**" means system organ class;

"**TEAF**" means treatment emergent adverse events;

"**TSX**" means the Toronto Stock Exchange;

"**Unither**" means Laboratoire Unither;

"**UPCR**" means Urinary/protein creatinine ratio;

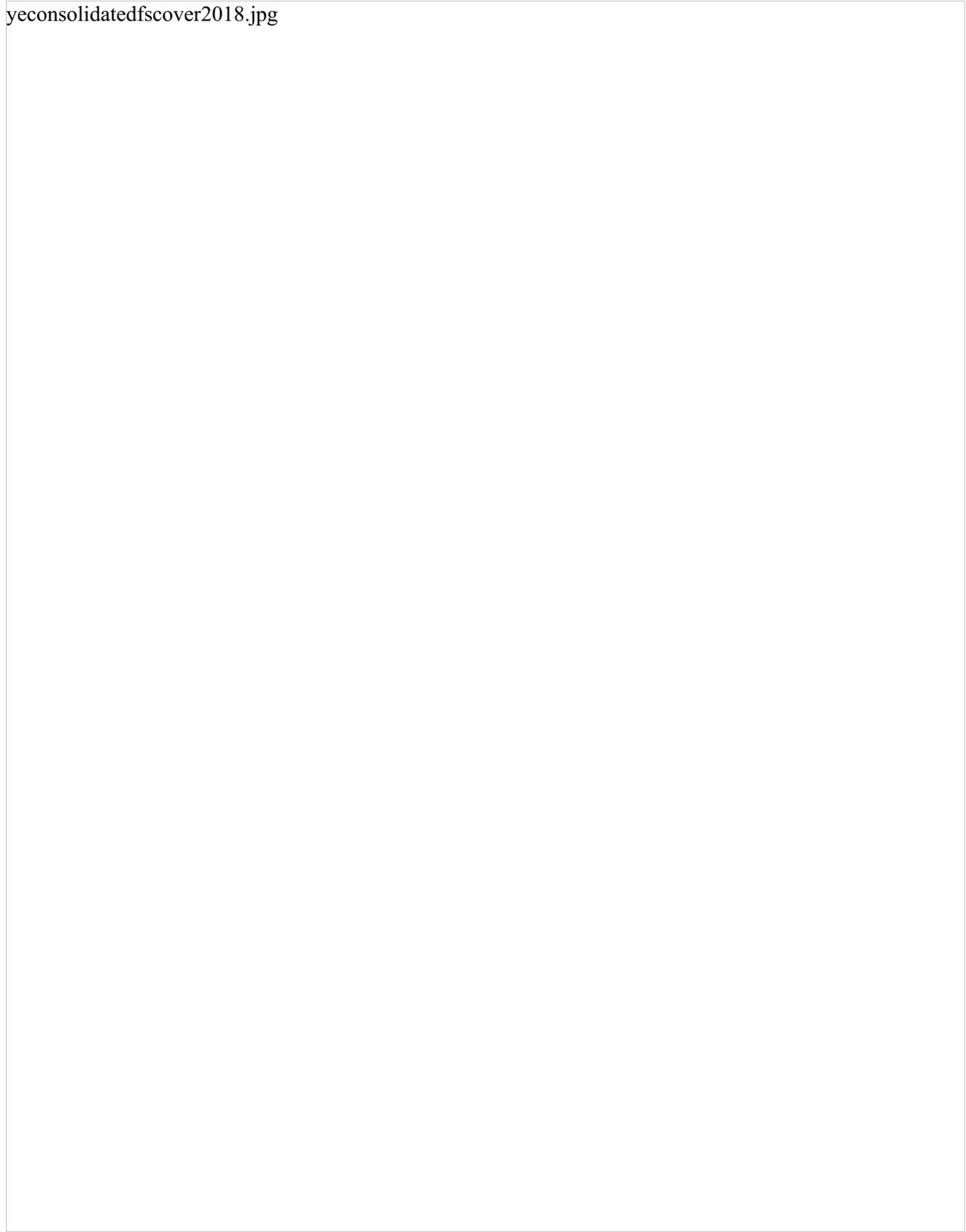
"**USPTO**" means United States Patent and Trademark Office;

"**Vifor**" means Vifor (International) AG;

"**VOS**" means voclosporin ophthalmic solution; and

"**Warrants**" means warrants to purchase Common Shares in the capital of the Company, with each whole warrant being exercisable to purchase one common share.

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the Company's independent auditors, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) on behalf of the shareholders. Their report outlines the scope of their audit and gives their opinion on the consolidated financial statements. PricewaterhouseCoopers LLP has full and free access to the Audit Committee.

(Signed) "Richard Glickman"

Chief Executive Officer

(Signed) "Dennis Bourgeault"

Chief Financial Officer

Victoria, British Columbia

March 15, 2019

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Aurinia Pharmaceuticals Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Aurinia Pharmaceuticals Inc. and its subsidiaries (together, the Company) as of December 31, 2018 and 2017, and the related consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, including the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and their financial performance and their cash flows for the years then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

“/s/PricewaterhouseCoopers LLP”

Chartered Professional Accountants

Edmonton, Canada

March 15, 2019

We have served as the Company's auditor since at least 1997. We have not been able to determine the specific year we began serving as auditor of the Company.

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Aurinia Pharmaceuticals Inc.
Consolidated Statements of Financial Position
As at December 31, 2018

(expressed in thousands of US dollars)

	2018	2017
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	117,967	165,629
Short term investments (note 5)	7,889	7,833
Accounts receivable and accrued interest receivable	217	109
Prepaid expenses, deposits and other	6,775	1,681
	<u>132,848</u>	<u>175,252</u>
Clinical trial contract deposits	358	448
Property and equipment (note 6)	41	31
Acquired intellectual property and other intangible assets (note 7)	12,616	14,116
	<u>145,863</u>	<u>189,847</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	7,071	7,959
Current portion of deferred revenue (note 9)	118	118
Contingent consideration (note 10)	72	73
	<u>7,261</u>	<u>8,150</u>
Deferred revenue (note 9)	324	442
Contingent consideration (note 10)	3,956	3,719
Derivative warrant liabilities (notes 11 and 23)	21,747	11,793
	<u>33,288</u>	<u>24,104</u>
Shareholders' Equity		
Share capital		
Common shares (note 12)	504,650	499,200
Warrants (note 12)	—	906
Contributed surplus	24,690	18,360
Accumulated other comprehensive loss	(805)	(883)
Deficit	(415,960)	(351,840)
	<u>112,575</u>	<u>165,743</u>
	<u>145,863</u>	<u>189,847</u>
Commitments and contingencies (note 20)		
Subsequent events (note 23)		

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

Approved by the Board of Directors

(signed) Lorin J. Randall
Director

(signed) Benjamin Rovinski
Director

Aurinia Pharmaceuticals Inc.
Consolidated Statements of Operations and Comprehensive Loss
For the years ended December 31, 2018 and December 31, 2017

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

	2018 \$	2017 \$
Revenue (note 9)		
Licensing revenue	118	418
Contract revenue	345	—
	<u>463</u>	<u>418</u>
Expenses		
Research and development (note 13)	41,382	33,930
Corporate, administration and business development (note 13)	13,674	12,096
Amortization of acquired intellectual property and other intangible assets (note 7)	1,545	1,434
Amortization of property and equipment	20	22
Other expense (income) (note 14)	(2,065)	(196)
	<u>54,556</u>	<u>47,286</u>
Net loss before change in estimated fair value of derivative warrant liabilities	(54,093)	(46,868)
Change in estimated fair value of derivative warrant liabilities (note 11)	(9,954)	(23,924)
Loss before income taxes	(64,047)	(70,792)
Income tax expense (note 15)	73	—
Net loss for the year	(64,120)	(70,792)
Other comprehensive income (loss)		
Item that may be reclassified subsequently to income (loss)		
Net change in fair value of short term investments (note 3)	—	(78)
Net comprehensive loss for the year	(64,120)	(70,870)
Net loss per common share (note 16) (expressed in \$ per share)		
Basic and diluted loss per common share	<u>(0.76)</u>	<u>(0.92)</u>

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

Aurinia Pharmaceuticals Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2018 and December 31, 2017

(expressed in thousands of US dollars)

	Common shares \$	Warrants \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive loss \$	Shareholders' equity \$
Balance – January 1, 2018	499,200	906	18,360	(351,840)	(883)	165,743
Opening adjustment on change in accounting policy (note 3)	—	—	—	—	78	78
Restated equity at the beginning of the year	499,200	906	18,360	(351,840)	(805)	165,821
Exercise of warrants	3,977	(906)	—	—	—	3,071
Exercise of stock options	1,473	—	(530)	—	—	943
Stock-based compensation	—	—	6,860	—	—	6,860
Net loss and comprehensive loss for the year	—	—	—	(64,120)	—	(64,120)
Balance - December 31, 2018	504,650	—	24,690	(415,960)	(805)	112,575
Balance – January 1, 2017	299,815	971	17,017	(281,048)	(805)	35,950
Issue of common shares	173,104	—	—	—	—	173,104
Share issue costs	(10,780)	—	—	—	—	(10,780)
Exercise of warrants	297	(65)	—	—	—	232
Exercise of derivative warrants	29,953	—	—	—	—	29,953
Exercise of stock options	6,811	—	(2,899)	—	—	3,912
Stock-based compensation	—	—	4,242	—	—	4,242
Net loss and comprehensive loss for the year	—	—	—	(70,792)	(78)	(70,870)
Balance - December 31, 2017	499,200	906	18,360	(351,840)	(883)	165,743

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

Aurinia Pharmaceuticals Inc.
Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and December 31, 2017

(expressed in thousands of US dollars)

	2018 \$	2017 \$
Cash flow provided by (used in)		
Operating activities		
Net loss for the year	(64,120)	(70,792)
Adjustments for		
Amortization of deferred revenue	(118)	(118)
Amortization of property and equipment	20	22
Amortization of acquired intellectual property and other intangible assets	1,545	1,434
Change in value and amortization of short term investments discount (premium) (note 18)	13	67
Revaluation of contingent consideration	236	502
Loss on disposal of equipment	—	1
Change in estimated fair value of derivative warrant liabilities	9,954	23,924
Stock-based compensation	6,860	4,242
	<u>(45,610)</u>	<u>(40,718)</u>
Contingent consideration milestones paid	—	(2,150)
Net change in other operating assets and liabilities (note 18)	(6,000)	1,699
Net cash used in operating activities	<u>(51,610)</u>	<u>(41,169)</u>
Investing activities (note 18)		
Purchase of short term investments	(36,084)	(97,996)
Proceeds on disposal/maturity of short term investments	36,093	90,018
Purchase of equipment	(30)	(25)
Capitalized patent costs	(45)	—
Net cash used in investing activities	<u>(66)</u>	<u>(8,003)</u>
Financing activities (note 18)		
Net proceeds from issuance of common shares	—	162,324
Proceeds from exercise of derivative warrants	—	8,684
Proceeds from exercise of warrants	3,071	232
Proceeds from exercise of stock options	943	3,912
Net cash generated from financing activities	<u>4,014</u>	<u>175,152</u>
(Decrease) Increase in cash and cash equivalents during the year	<u>(47,662)</u>	<u>125,980</u>
Cash and cash equivalents – Beginning of year	<u>165,629</u>	<u>39,649</u>
Cash and cash equivalents – End of year	<u>117,967</u>	<u>165,629</u>

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

(expressed in US dollars, tabular amounts in thousands)

1 Corporate information

Aurinia Pharmaceuticals Inc. or the Company is a late clinical stage biopharmaceutical company, focused on developing and commercializing therapies to treat targeted patient populations that are suffering from serious diseases with a high unmet medical need. The Company is currently developing voclosporin, an investigational drug, for the treatment of lupus nephritis (LN), focal segmental glomerulosclerosis (FSGS), and Dry Eye Syndrome (DES).

Aurinia's head office is located at #1203-4464 Markham Street, Victoria, British Columbia, V8Z 7X8. The Company has its registered office located at #201, 17904-105 Avenue, Edmonton, Alberta, T5S 2H5 where the finance function is performed.

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

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

2 Basis of preparation

Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 15, 2019.

Basis of measurement

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

Functional and presentation currency

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

Summary of significant accounting policies and changes in accounting policies

Consolidation

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

Intercompany transactions, balances and unrealized gains on transactions between companies are eliminated.

Translation of foreign currencies

Each asset and liability, revenue or expense arising from a foreign currency transaction is recorded at average rates of exchange during the period. The monetary assets and liabilities denominated in foreign currencies are translated into US dollars at rates of exchange in effect at the end of the period. Foreign exchange gains and losses arising on translation or settlement of a foreign currency denominated monetary item are included in the consolidated statements of operations and comprehensive loss.

All references to CA\$ are to the lawful currency of Canada.

Revenue recognition

IFRS 15 replaces IAS 18, Revenue, IAS 11 Construction Contracts, and other interpretive guidance associated with revenue recognition and provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria.

The Company's accounting policy commencing January 1, 2018 is described below.

The Company has agreements in specific regions with strategic partners. These agreements may include one-time payments (upfront payments), payments in the form of cost reimbursements, milestone payments, royalties and license fees.

(expressed in US dollars, tabular amounts in thousands)

Once the Company determines that a contract exists and the contract is with a customer, it identifies the performance obligations within the contract. A performance obligation is a promise to provide a distinct good or service or a series of distinct goods or services and is the unit of account for recognizing revenue.

Next the Company determines the transaction price. The transaction price reflects the amount of consideration to which the Company expects to be entitled in exchange for the goods or services transferred. Management takes into account consideration that is variable and only includes variable consideration to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The transaction price is then allocated to the various performance obligations based on the relative standalone selling prices of the goods or services being provided.

Revenue is recognized when or as performance obligations are satisfied by transferring control of a promised good or service to a partner at a point in time or over time.

Where the period between the transfer of goods or services to the customer and payment exceeds one year the transaction prices are adjusted for the time value of money.

Revenues for each unit of accounting are recorded as described below:

- Licensing revenues

License revenues represent non-refundable payments received at the time of signature of license agreements. The licensing agreement can represent a right to access, that transfers over time or a right to use, that transfers at a point in time.

The promise is to provide a right to access when the contract requires, or the customer reasonably expects, that the Company will undertake activities that significantly affect the intellectual property to which the customer has rights, when the rights granted by the license directly expose the customer to any positive or negative effects of the Company's activities that may significantly affect the intellectual property and those activities do not result in the transfer of a good or service to the customer as those significant activities occur. If these criteria are met, the Company recognizes the revenue on a systematic basis over the period which the related services and activities are rendered and all obligations are performed.

If these criteria are not met, it is a right to use a license, and the revenue is recognized when the license is granted to the customer at a point in time.

- Contract revenue

Contract revenue includes any other contracts service or sale agreements entered into outside of licensing arrangements. These contracts include non-refundable payments received in milestones or royalty payments which are recognized according to the milestone payments and royalty payments following.

- Milestone payments

Milestone payments can be part of both licensing arrangements and other service or sale contracts. These are generally based on developmental or regulatory events, are forms of variable consideration and are only included in the transaction price and recognized as revenue when it is highly probable that a significant reversal will not occur when the uncertainty associated with the milestone is subsequently resolved.

- Royalty payments

Royalty payments can be part of both licensing arrangements and other service or sale contracts. Royalty payments are recognized only when the later of the subsequent sale occurs and the performance obligation to which some or all of the royalty has been allocated has been satisfied or partially satisfied.

Up to December 31, 2017, payments received under collaboration agreements, which may have included upfront payments, milestone payments, contract services, royalties and license fees were recorded as follows:

- Licensing and research and development revenues

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

(expressed in US dollars, tabular amounts in thousands)

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

License fees representing non-refundable payment received at the time of signature of a licensing agreements were recognized as revenue when the Company had no significant future performance obligations and collectability of the fees was reasonably assured. License fees received at the beginning of licensing agreements where significant future obligations exist were deferred and recognized as revenue on a systematic basis over the period during which the related services are rendered and all obligations were performed.

- Milestone payments

Milestone payments, which were generally based on developmental or regulatory events, were recognized when the milestones were achieved, collectability was assured, and when the Company had no significant future performance obligations in connection with the milestones.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less. Cash equivalents are readily converted into known amounts of cash, and are subject to an insignificant risk of change in value.

Property and equipment

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

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

Computer equipment and software	3 years
Office equipment and furniture	5 years
Leasehold improvements	term of the lease

Acquired intellectual property and other intangible assets

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

Separately acquired intellectual property is shown at historical cost. The initial recognition of a reacquired right is recognized as an intangible asset measured on the basis of the remaining contractual term of the related contract. If the terms of the contract giving rise to a reacquired right are favourable or unfavourable relative to the terms of current market transactions for the same or similar items, the difference is recognized as a gain or loss in the consolidated statements of operations and comprehensive loss upon initial recognition. Purchased intellectual property and reacquired rights are capitalized and amortized on a straight-line basis in the consolidated statements of operations and comprehensive loss over periods ranging from 10 to 20 years.

Impairment of non-financial assets

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

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects. Transaction costs might be incurred in anticipation of an issuance of equity instruments and across reporting periods. As such the costs are deferred on the balance sheet until the equity instrument is recognized. Deferred costs are subsequently reclassified as a deduction from equity when the equity instruments are recognized. If the equity instruments are not subsequently issued, the transaction costs are recognized as an expense.

(expressed in US dollars, tabular amounts in thousands)

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

Provisions

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

Research and development

Research costs are expensed in the year incurred. Development costs are expensed as incurred except for those that meet the criteria for capitalization, including, among other criteria obtaining final market approval by the regulatory authority, in which case they are capitalized and then amortized over the useful life. No development costs have been capitalized to date.

Stock-based compensation

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

Leases

Operating lease payments are recognized in the consolidated statements of operations and comprehensive loss on a straight-line basis over the term of the lease.

Income tax

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

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

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

Earnings (loss) per share

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

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

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the

(expressed in US dollars, tabular amounts in thousands)

Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

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

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

From January 1, 2018 financial assets and liabilities are classified into three categories: amortized cost, fair value through profit or loss ("FVPL") and fair value through other comprehensive income ("FVOCI"). The classification of financial assets is determined by their context in the Company's business model and by characteristics of the financial assets contractual cash flows.

Financial assets and financial liabilities are measured at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instrument's classification. At initial recognition, the Company classifies its financial instruments in the following categories:

- i) Amortized cost: Cash and cash equivalents, short term investments, accounts receivable and accrued interest receivable and accounts payable and accrued liabilities are measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. The financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method.
- ii) FVPL: The Contingent consideration provided to ILJIN SNT Co., Ltd. (ILJIN) (see note 10) and the derivatives warrant liabilities (see note 11) are measured initially at FVPL and are subsequently measured at fair value with changes in fair value immediately charged to the consolidated statements of operations.
- iii) FVOCI: Financial assets measured at FVOCI are subsequently measured at fair value with changes in fair value being recognized in OCI net of tax. Transaction costs related to the purchase of financial assets are measured at FVOCI. Interest impairment and foreign exchange gains or losses are recognized in the statement of operations while all other gains or losses are recognized in OCI. The Company has not classified any equity instruments at FVOCI.

Until December 31, 2017 the Company classified its financial instruments in the following categories:

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

Financial instruments in this category were recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value were presented in the consolidated statements of operations and comprehensive loss within other expense (income) in the period in which they arose.
- ii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprised accounts receivable and cash. Cash equivalents were also included in current assets due to their short-term nature. Loans and receivables were initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less a provision for impairment.
- iii) Available for sale financial assets: Available for sale assets are non-derivative financial assets and short term investments that were designated as available for sale and are not categorized into any of the other categories described above. They were initially recognized at fair value including direct and incremental transaction costs. They were subsequently recognized at fair value. Gains and losses arising from changes in fair value were included as a separate component of equity until sale, when the cumulative gain or loss is transferred to the consolidated statements of operations and comprehensive loss. Interest was determined using the effective interest method, and impairment losses and translation differences on monetary items were recognized in the consolidated statements of operations and comprehensive loss.
- iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost are composed of accounts payable and accrued liabilities. Trade payables and accrued liabilities were initially recognized at the amount required to be paid, less, when material, a discount to reduce payables to fair value. Subsequently, accounts payables were measured at amortized cost using

(expressed in US dollars, tabular amounts in thousands)

the effective interest method. These were classified as current liabilities if payment is due within 12 months. Otherwise, they were presented as non-current liabilities.

- v) Financial liabilities at fair value: Contingent consideration provided to ILJIN SNT Co., Ltd. (ILJIN) (see note 10) and derivative warrant liabilities (see note 11) were financial liabilities recorded at fair value with subsequent changes in fair value recorded in the consolidated statements of operations and comprehensive loss.

Impairment of financial assets

From January 1, 2018 the Company uses a forward-looking expected credit loss model ("ECL"). The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets. Under IFRS 9, loss allowances will be measured on either of the following bases: i. 12-month ECLs which are ECLs that result from possible default events within 12 months after the reporting date; and ii. lifetime ECLs which are ECLs that result from all possible default events over the expected life of a financial instruments.

For receivables, the Company applies the simplified, forward-looking approach permitted by IFRS 9 to measuring ECLs which allows a lifetime expected loss allowance for all trade receivables to be recognized from initial recognition of the receivables. Impairment losses on financial assets carried at amortized cost or FVOCI are reversed in subsequent years if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. For debt instruments carried at amortized cost, the Company uses a ECL model which depends on whether there has been a significant increase in the credit risk.

Until December 31, 2017 at each statement of financial position date, the Company assessed whether there was objective evidence a financial asset or group of financial assets was impaired. A financial asset or group of financial assets is impaired and impairment losses were incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. If such evidence existed, the Company recognized an impairment loss.

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

3 Recent Changes in Accounting Standards

New accounting standards adopted in the year

The Company has adopted three new and revised standards, effective January 1, 2018. This note explains the impact of the adoption of IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 2 Share based payment on the Company's financial statements that have been applied from January 1, 2018, where they are different to those applied in the prior period.

- **IFRS 9 Financial Instruments**

The adoption of IFRS 9 Financial Instruments using the modified retrospective approach on January 1, 2018 (the date of initial application of IFRS 9) results in a change in accounting policy. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The reclassification of financial assets have therefore been recognized in the opening balance sheet on January 1, 2018. The new standard introduces expanded disclosure requirements and changes in presentation, these have minimally impacted the nature and extent of the Company's disclosures. IFRS 9 is a three-part standard to replace IAS 39 Financial Instruments: Recognition and Measurement, addressing new requirements for (i) classification and measurement, (ii) impairment, and (iii) hedge accounting.

Classification and measurement

On January 1, 2018 the Company has assessed which business models apply to the financial assets held by the Company and has classified its financial instruments into the appropriate IFRS 9 categories. There was no impact to the financial liabilities held by the Company.

Cash and cash equivalents, short term investments and accounts receivable are recorded initially at fair value and subsequently at amortized cost using the effective interest method less any provisions for impairment.

(expressed in US dollars, tabular amounts in thousands)

The impact to short term investments due to the classification of these assets in accordance with IFRS 9 is outlined below:

	Short term investments	Accumulated other comprehensive loss
Balance at December 31, 2017 – IAS 39	7,833	883
Reclassify investments from available-for-sale to amortized cost	78	(78)
Balance at January 1, 2018 – IFRS 9	7,911	805

The investments held at December 31, 2017 were reclassified from available for sale to amortized cost. At January 1, 2018, the date of initial application, the Company's business model is to hold investments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount. The fair value loss of \$78,000 would have otherwise been recognized in other comprehensive income (OCI) had the short term investments not been reclassified to amortized cost.

There was no impact to cash and cash equivalents and accounts receivable resulting from the adoption of IFRS 9.

Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. The Company has a nominal amount of accounts receivable, therefore, the change in impairment methodology due to the new standard does not have a significant impact on the financial statements. The Company's cash and cash equivalents and short term investments are also subject to the impairment requirements of IFRS 9, the identified impairment loss is not material.

Hedge Accounting

The Company had not entered into any hedges as at December 31, 2017 and has not undertaken hedging activities in the year ended December 31, 2018 therefore the hedge accounting section standard is not applicable to the Company at this time and does not have an impact on the financial statements.

- **IFRS 15 Revenues from Contracts with Customers**

The adoption of IFRS 15 Revenue from Contracts with customers using the modified retrospective and the completed contract practical expedient approaches on January 1, 2018 (the date of initial application of IFRS 15) does result in a change in accounting policy. However, the adoption did not have a material impact on the financial statements, and as a result the 2017 comparatives are not required to be restated. The new standard replaces IAS 18, Revenue, IAS 11 Construction Contracts, and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria.

The modified retrospective approach results in the cumulative effect, if any, of adoption being recognized at the date of initial application. The Company currently has no product sales or significant sources of revenue, therefore there is no effect upon initial application.

- **IFRS 2 Share based payments**

In June, 2016, the IASB issued final amendments to IFRS 2, clarifying how to account for certain types of share based payment transactions. These amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effect of vesting and non-vesting conditions on the measurement of cash-settled share based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classifications of the transaction from cash-settled to equity-settled. The Company has evaluated the impact of these amendments and as a result have determined that there is no required change to the Company's accounting policy related to Share based payments, and therefore no changes to the consolidated financial statements are required.

New accounting standard not yet adopted

The following standard is effective for annual periods beginning on or after January 1, 2019 and has not been applied in preparing these annual consolidated financial statements.

(expressed in US dollars, tabular amounts in thousands)

- **IFRS 16
Leases**

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

At the date of adoption of IFRS 16, Aurinia will recognize a lease liability and right-of-use asset. The lease liability will be measured at the present value of the future lease payments during the lease term which is estimated to be an average of three years at the date of adoption, discounted using incremental borrowing rates which, in most instances, will be an average interest rate on borrowings for companies comparable to the Company. The right-of-use asset will be initially calculated at an amount equal to the initial value of the lease liability adjusted as required under the standard for specific items. The right-of-use asset is expected to be amortized using the straight-line method from the date of adoption to the end of the lease term. Interest on the lease liability will be calculated using the effective interest method with rent payments reducing the liability. As a result of these changes, there will be a increase in 2019 to interest expense and amortization, and a reduction in Corporate, administration and business development expenses (note 13) on the Statement of Operations and Comprehensive Loss due to the decrease in rent expense. To date, management has identified two facility lease agreements that will have an impact on the consolidated financial statements. As at the reporting date, the non-cancelable commitment related to these two leases is \$800,000 (note 20). Management is assessing and quantifying the potential financial impact that the adoption will have on the Company's consolidated financial statements. Management is also currently reviewing Aurinia's non-facility related contracts and agreements to determine whether any of the agreements will impact the Company's consolidated financial statements. The company will be ready to report under IFRS 16 in its first quarter financial statements in 2019.

4 Critical accounting estimates and judgments

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

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

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

Critical estimates in applying the Company's accounting policies

- **Contingent consideration**

Contingent consideration is a financial liability recorded at fair value. The amount of contingent consideration to be paid is based on the occurrence of future events, such as the achievement of certain development, regulatory and sales milestones. Accordingly, the estimate of fair value contains uncertainties as it involves judgment about the likelihood and timing of achieving these milestones as well as the discount rate used. Changes in fair value of the contingent consideration obligation result from changes to the assumptions used to estimate the probability of success for each milestone, the anticipated timing of achieving the milestones and the discount period and rate to be applied. A change in any of these assumptions could produce a different fair value, which could have a material impact on the results from operations. The impact of changes in key assumptions is described in note 10.

(expressed in US dollars, tabular amounts in thousands)

- Derivative Warrant Liabilities

Warrants issued pursuant to equity offerings that are potentially exercisable in cash or on a cashless basis resulting in a variable number of shares being issued are considered derivative liabilities and therefore measured at fair value.

The Company uses the Black-Scholes pricing model to estimate fair value at each exercise and period end date. The key assumptions used in the model are the expected future volatility in the price of the Company's shares and the expected life of the warrants. The impact of changes in key assumptions is described in note 11.

- Fair value of stock options

Determining the fair value of stock options on the 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 term of the underlying instrument.

Critical judgments in applying the Company's accounting policies

- Revenue recognition

Management's assessments related to the recognition of revenues for arrangements containing multiple elements are based on estimates and assumptions. Judgment is necessary to identify separate performance obligations and to allocate related consideration to each separate performance obligation. Where deferral of license fees is deemed appropriate, subsequent revenue recognition is often determined based on certain assumptions and estimates, the Company's continuing involvement in the arrangement, the benefits expected to be derived by the customer and expected patent lives. The estimate of variable consideration requires significant judgment and an assessment of their potential reversal. Management also uses judgement in assessing if a license is a right to use or a right to access intellectual property. Factors that are considered include whether the customer reasonably expects (arising from the entity's customary business practices) that the entity will undertake activities that will significantly affect the intellectual property, the rights granted by the license directly expose the customer to any positive or negative effects of the entity's activities and whether those activities transfer a separate good or service to the customer. To the extent that any of the key assumptions or estimates change, future operating results could be affected.

- Impairment of intangible assets

The Company follows the guidance of IAS 36 to determine when impairment indicators exist for its intangible assets. When impairment indicators exist, the Company is required to make a formal estimate of the recoverable amount of its intangible assets. This determination requires significant judgment. In making this judgment, management evaluates external and internal factors, such as significant adverse changes in the technological, market, economic or legal environment in which the Company operates as well as the results of its ongoing development programs. Management also considers the carrying amount of the Company's net assets in relation to its market capitalization as a key indicator. In making a judgment as to whether impairment indicators exist as at December 31, 2018, management concluded there were none.

- Derivative warrant liabilities

Management has determined that derivative warrant liabilities are classified as long term as these derivative warrant liabilities will ultimately be settled for common shares and therefore the classification is not relevant.

5 Short term investments

Upon adoption of IFRS 9, the Company determined that its business model for managing short term investments is to hold the investments for cash flow collection and this is congruent with the classification of financial assets held at amortized cost outlined in IFRS 9. As a result, on January 1, 2018, the Company has reclassified short term investments originally held as available for sale at December 31, 2017 to short term investments held at amortized cost without restating comparative information. For further information regarding the adoption of IFRS 9 see note 3.

(expressed in US dollars, tabular amounts in thousands)

The Company's classification of short term investments is as noted below:

	Amortized Cost	Fair Value	Fair Value
	2018	2018	2017
	\$	\$	\$
Amortized cost			
Canadian Government Bond	3,912	3,902	—
Bank of Nova Scotia Treasury Note	3,977	3,955	—
Available for sale (fair value)			
Canadian Government Bond	—	—	3,888
Bank of Nova Scotia Treasury Note	—	—	3,945
	<u>7,889</u>	<u>7,856</u>	<u>7,833</u>

The average duration of the interest-bearing securities is 1.69 years and the average yield to maturity is 1.64%.

For the year ended December 31, 2017 short term investments held at fair value were classified as Level 2 in the fair value hierarchy and the fair value was determined by using quoted market prices.

6 Property and equipment

	Computer equipment and software \$	Office equipment and furniture \$	Leasehold improvements \$	Total \$
Year ended December 31, 2018				
As at January 1, 2018	28	3	—	31
Additions	30	—	—	30
Amortization	(19)	(1)	—	(20)
Net book value	<u>39</u>	<u>2</u>	<u>—</u>	<u>41</u>
As at December 31, 2018				
Cost	94	41	34	169
Accumulated amortization	(55)	(39)	(34)	(128)
Net book value	<u>39</u>	<u>2</u>	<u>—</u>	<u>41</u>
Year ended December 31, 2017				
As at January 1, 2017	19	5	5	29
Additions	25	—	—	25
Disposal	(1)	—	—	(1)
Amortization	(15)	(2)	(5)	(22)
Net book value	<u>28</u>	<u>3</u>	<u>—</u>	<u>31</u>
As at December 31, 2017				
Cost	156	41	34	231
Accumulated amortization	(128)	(38)	(34)	(200)
Net book value	<u>28</u>	<u>3</u>	<u>—</u>	<u>31</u>

(expressed in US dollars, tabular amounts in thousands)

7 Acquired intellectual property and other intangible assets

	Patents \$	Acquired intellectual property and reacquired rights \$	Total \$
Year ended December 31, 2018			
Opening net book value	773	13,343	14,116
Additions	45	—	45
Amortization for the year	(260)	(1,285)	(1,545)
Closing net book value	<u>558</u>	<u>12,058</u>	<u>12,616</u>
As at December 31, 2018			
Cost	1,551	19,075	20,626
Accumulated amortization	(993)	(7,017)	(8,010)
Net book value	<u>558</u>	<u>12,058</u>	<u>12,616</u>
Year ended December 31, 2017			
Opening net book value	922	14,628	15,550
Amortization for the year	(149)	(1,285)	(1,434)
Closing net book value	<u>773</u>	<u>13,343</u>	<u>14,116</u>
As at December 31, 2017			
Cost	2,171	19,075	21,246
Accumulated amortization	(1,398)	(5,732)	(7,130)
Net book value	<u>773</u>	<u>13,343</u>	<u>14,116</u>

The remaining amortization period of the intangible assets calculated using the weighted average of the useful life is 9.59 years.

8 Accounts payable and accrued liabilities

	2018 \$	2017 \$
Trade payables	2,951	3,773
Other accrued liabilities	1,849	2,149
Employee accruals	2,271	2,037
	<u>7,071</u>	<u>7,959</u>

9 Licensing revenue, contract revenue and deferred revenue

Licensing Revenue

The Company recorded licensing revenue of \$118,000 (2017 - \$118,000) related to the upfront license payment of \$1,500,000 received in 2010 pursuant to the 3SBio Inc. license agreement. Under the agreement, the primary substantive obligations of the Company are to grant the license and transfer intellectual knowledge to 3SBio. Under the agreement, the Company is also required to maintain the patent portfolio in China, Taiwan and Hong Kong, and to provide further support and cooperation to 3SBio over the life of the agreement, which coincides with the life of the patents. Any additional assistance which may be provided to 3SBio will be performed on a full cost recovery basis. The deferred licensing fee revenue is recognized on a straight-line basis as the Company satisfies the performance obligations over the life of the patents and the benefit to the customer transfers ratably throughout the patent live, which expires in 2022. As at December 31, 2018, \$442,000 (2017 - \$560,000) of deferred revenue remains relating to this payment. The Company will provide commercial supply to 3SBio on a cost-plus basis and will receive ongoing royalties based on sales of voclosporin by 3SBio.

On April 17, 2017, the Company entered into an agreement with Merck Animal Health (“MAH”) whereby the Company granted them worldwide rights to develop and commercialize its patented nanomicellar voclosporin ophthalmic solution (“VOS”) for the treatment of Dry Eye Syndrome in dogs. Under the terms of the agreement, the Company received a Technology Access fee of \$300,000. This agreement provided MAH with a right to use intellectual property. MAH was able to direct the use of and obtain substantially all of the benefits from the license at the time that control of the rights were transferred and therefore, the \$300,000 Technology Access fee was recognized as revenue in the year ended December 31, 2017. The Company is eligible to receive further payments based on certain development and sales milestones and receive royalties based on global product sales.

(expressed in US dollars, tabular amounts in thousands)

Contract Revenue

The Company earned a contract milestone of \$345,000 (CA\$450,000) pursuant to a purchase and sale agreement dated February 14, 2014 between Ciclofilin Pharmaceuticals Corp. (now Contravir Pharmaceuticals, Inc.) and Aurinia Pharmaceuticals Inc. under which the Company sold the Non-Immunosuppressive Cyclosporine Analogue Molecules (NICAMs) early stage research and development asset to Ciclofilin. The Company is eligible to receive further payments based on certain development and sales milestones and to receive royalties based on global product sales. The Company has no obligations under this agreement.

10 Contingent consideration

The outstanding fair value of contingent consideration payable to ILJIN an affiliated shareholder and related party, is the result of an Arrangement Agreement (the Agreement) completed on September 20, 2013 between the Company, Aurinia Pharma Corp. and ILJIN. Pursuant to the Agreement, payments of up to \$10,000,000 may be paid dependent on the achievement of pre-defined clinical and marketing milestones.

During 2018 no payments were made to ILJIN. In 2017 the Company paid ILJIN \$2,150,000 upon the achievement of two specific milestones.

At December 31, 2018, if all of the remaining milestones are met, the timing of these payments is estimated to occur as follows:

	\$
2019	100
2020	625
2021	7,125
	<u>7,850</u>

The fair value estimates at December 31, 2018 were based on a discount rate of 10% (2017 - 10%) and a presumed payment range between 50% and 74% (2017- 50% and 75%). The fair value of this contingent consideration as at December 31, 2018 was estimated to be \$4,028,000 (December 31, 2017 - \$3,792,000) and was determined by estimating the probability and timing of achieving the milestones and applying the income approach.

The change in the revaluation amount in 2018 resulted primarily from the change in the expected timing of milestone payments and the passage of time. The passage of time resulted in a revaluation of contingent consideration expense of \$236,000 for the year ended December 31, 2018. The change in probability factors for the milestones achieved and the passage of time resulted in a revaluation of contingent consideration expense of \$502,000 for the year ended December 31, 2017.

This is a Level 3 recurring fair value measurement. If the probability for success were to increase by a factor of 10% for each milestone, this would increase the net present value (NPV) of the obligation by approximately \$622,000 as at December 31, 2018. If the probability for success were to decrease by a factor of 10% for each milestone, this would decrease the NPV of the obligation by approximately \$620,000 as at December 31, 2018. If the discount rate were to increase to 12%, this would decrease the NPV of the obligation by approximately \$172,000. If the discount rate were to decrease to 8%, this would increase the NPV of the obligation by approximately \$185,000.

11 Derivative warrant liabilities

In accordance with IFRS, a contract to issue a variable number of shares fails to meet the definition of equity and must instead be classified as a derivative liability and measured at fair value with changes in fair value recognized in the consolidated statements of operations and comprehensive loss at each period-end. The derivative liabilities will ultimately be converted into the Company's equity (common shares) when the warrants are exercised, or will be extinguished on the expiry of the outstanding warrants, and will not result in the outlay of any cash by the Company. Immediately prior to exercise, the warrants are remeasured at their estimated fair value. Upon exercise, the intrinsic value is transferred to share capital (the intrinsic value is the share price at the date the warrant is exercised less the exercise price of the warrant) . Any remaining fair value is recorded through the statement of operations and comprehensive loss as part of the change in estimated fair value of derivative warrant liabilities.

(expressed in US dollars, tabular amounts in thousands)

	December 28, 2016 Warrants		February 14, 2014 Warrants		Total	
	# of warrants (in thousands)	\$	# of warrants (in thousands)	\$	# of warrants (in thousands)	\$
Balance at January 1, 2018	3,523	8,948	1,738	2,845	5,261	11,793
Revaluation of derivative warrant liability	—	6,527	—	3,427	—	9,954
Balance at December 31, 2018	3,523	15,475	1,738	6,272	5,261	21,747
Balance at January 1, 2017	6,388	7,405	3,748	1,733	10,136	9,138
Conversion to equity (common shares) upon exercise of warrants	(2,865)	(12,421)	(2,010)	(8,848)	(4,875)	(21,269)
Revaluation of derivative warrant liability upon exercise of warrants	—	(3,844)	—	(1,013)	—	(4,857)
Revaluation of derivative warrant liability	—	17,808	—	10,973	—	28,781
Balance at December 31, 2017	3,523	8,948	1,738	2,845	5,261	11,793

Derivative warrant liability related to December 28, 2016 Bought Deal public offering

On December 28, 2016, the Company completed a \$28,750,000 Bought Deal public offering (the Offering). Under the terms of the Offering, the Company issued 12,778,000 units at a subscription price per Unit of \$2.25, each Unit consisting of one common share and one-half (0.50) of a common share purchase warrant (a Warrant), exercisable for a period of five years from the date of issuance at an exercise price of \$3.00. The holders of the Warrants issued pursuant to this offering may elect, if the Company does not have an effective registration statement registering or the prospectus contained therein is not available for the issuance of the Warrant Shares to the holder, in lieu of exercising the Warrants for cash, a cashless exercise option to receive common shares equal to the fair value of the Warrants. The fair value is determined by multiplying the number of Warrants to be exercised by the weighted average market price less the exercise price with the difference divided by the weighted average market price. If a Warrant holder exercises this option, there will be variability in the number of shares issued per Warrant.

At initial recognition on December 28, 2016, the Company recorded a derivative warrant liability of \$7,223,000 based on the estimated fair value of the Warrants with allocated share issuance costs of \$655,000 recognized as other expense.

There were no warrant exercises in 2018. In 2017, certain holders of Warrants exercised 2,865,000 at \$3.00 per share for a gross proceeds of \$8,596,000. These Warrants had an estimated fair value of \$16,266,000 on the dates of exercise, determined using the Black-Scholes warrant pricing model. Of this amount \$12,421,000 was transferred from derivative warrant liabilities to equity (common shares) and \$3,844,000 was recorded through the statement of operations and comprehensive loss as a part of the change in estimated fair value of derivative warrant liabilities.

The Company uses the Black-Scholes pricing model to estimate fair value. The Company considers expected volatility of its common shares in estimating its future stock price volatility. The risk-free interest rate for the life of the Warrants was based on the yield available on government benchmark bonds with an approximate equivalent remaining term at the time of issue. The life of warrant is based on the contractual term.

As at December 31, 2018, the Company revalued the remaining derivative warrants at an estimated fair value of \$15,475,000 (December 31, 2017 – \$8,948,000). The Company recorded an increase in the estimated fair value of the derivative warrant liability of \$6,527,000 for the year ended December 31, 2018 (2017 - \$17,808,000).

The following assumptions were used to estimate the fair value of the derivative warrant liability on December 31, 2018 and December 31, 2017.

	2018	2017
Annualized volatility	55%	55%
Risk-free interest rate	2.45%	2.08%
Life of warrants in years	2.99	3.99
Dividend rate	0.0%	0.0%
Market price	6.82	4.53
Fair value per Warrant	4.39	2.54

(expressed in US dollars, tabular amounts in thousands)

Derivative warrant liability related to February 14, 2014 private placement offering

On February 14, 2014, the Company completed a \$52,000,000 private placement. Under the terms of the Offering, the Company issued 18,919,404 units at a subscription price per Unit of \$2.7485, each Unit consisting of one common share and one-quarter (0.25) of a common share purchase warrant (a Warrant), exercisable for a period of five years from the date of issuance at an exercise price of \$3.2204. The holders of the Warrants issued pursuant to the February 14, 2014 private placement may elect, in lieu of exercising the Warrants for cash, a cashless exercise option to receive common shares equal to the fair value of the Warrants based on the number of Warrants to be exercised multiplied by a five-day weighted average market price less the exercise price with the difference divided by the weighted average market price. If a Warrant holder exercises this option, there will be variability in the number of shares issued per Warrant.

There were no warrant exercises in 2018. In 2017, certain holders of these Warrants elected this option and the Company issued 1,154,000 common shares on the cashless exercise of 1,983,000 Warrants. These Warrants had an estimated fair value of \$9,861,000 at the dates of exercise, determined using the Black-Scholes warrant pricing model. Of this amount, \$8,848,000 was transferred from derivative warrant liabilities to equity (common shares) and \$1,013,000 was recorded through the statement of operations and comprehensive loss as part of the change in estimated fair value of derivative warrant liabilities. One holder of 27,000 w

arrants exercised these warrants for cash and received 27,000 common shares. The Company received cash proceeds of \$88,000.

As at December 31, 2018, the Company revalued the remaining derivative warrant liability at an estimated fair value of \$6,272,000 (December 31, 2017 – \$2,845,000). The Company recorded an increase in the estimated fair value of the derivative warrant liability of \$3,427,000 for the year ended December 31, 2018 (2017 – \$10,973,000).

The remaining Warrants were fully exercised subsequent to year end, more information related to these exercises can be found in note 23 - subsequent events.

The Company considers expected volatility of its common shares in estimating its future stock price volatility. The risk-free interest rate for the expected life of the Warrants was based on the yield available on government benchmark bonds with an approximate equivalent remaining term at the time of the grant. The expected life is based on the contractual term.

The Company uses the Black-Scholes pricing model to estimate fair value. The following assumptions were used to estimate the fair value of the derivative warrant liability on December 31, 2018 and December 31, 2017.

	2018	2017
Annualized volatility	45%	48%
Risk-free interest rate	2.56%	1.76%
Life of warrants in years	0.12	1.12
Dividend rate	0.0%	0.0%
Market price	6.82	4.53
Fair value per Warrant	3.61	1.64

These derivative warrant liabilities are Level 3 recurring fair value measurements.

The key Level 3 inputs used by management to estimate 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 estimated fair value of the obligation by approximately \$3,407,000 as at December 31, 2018. If the market price were to decrease by a factor of 10%, this would decrease the estimated fair value of the obligation by approximately \$3,370,000. If the volatility were to increase by 10%, this would increase the estimated fair value of the obligation by approximately \$344,000. If the volatility were to decrease by 10%, this would decrease estimated fair value of the obligation by approximately \$322,000 as at December 31, 2018.

(expressed in US dollars, tabular amounts in thousands)

12 Share capital

a) Common shares

Authorized

Unlimited common shares without par value

Issued

	Common shares	
	Number (in thousands)	\$
Balance as at January 1, 2018	84,052	499,200
Issued pursuant to exercise of warrants	1,172	3,977
Issued pursuant to exercise of stock options	276	1,473
Balance as at December 31, 2018	85,500	504,650
Balance as at January 1, 2017	52,808	299,815
Issued pursuant to Public Offering	25,645	162,324
Issued pursuant to exercise of warrants	85	297
Issued pursuant to exercise of derivative liability warrants (note 10)	4,020	29,953
Issued pursuant to exercise of stock options	1,494	6,811
Balance as at December 31, 2017	84,052	499,200

2018

November 30, 2018 ATM facility

On November 30, 2018 the Company entered into an Open Market Sale Agreement (the “Sale Agreement”) with Jefferies LLC (“Jefferies”) pursuant to which the Company may from time to time sell, through at-the-market (“ATM”) offerings, common shares that would have an aggregate offering price of up to US\$30,000,000. Aurinia 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 Aurinia’s short form base shelf prospectus dated March 26, 2018, and Aurinia’s shelf registration statement on Form F-10 dated March 26, 2018, declared effective on March 29, 2018. The listing of any shares sold pursuant to the ATM offering is subject to the approval of the Toronto Stock Exchange and NASDAQ. Jefferies, at Aurinia’s discretion and instruction, were to use its commercially reasonable efforts to sell the Common Shares at market prices from time to time. Sales in the ATM offering would only be conducted in the United States through NASDAQ or another exchange at market prices. No sales were to be conducted in Canada or through the Toronto Stock Exchange.

There were no sales through this ATM Facility in 2018. Subsequent to the year end, this ATM facility was fully utilized as more fully described in Note 23.

2017

March 20, 2017 public offering

On March 20, 2017 the Company completed a public offering of 25,645,000 common shares at a price of \$6.75 per share. The offering included 3,345,000 common shares from the overallotment exercised by the underwriters. Gross proceeds from this Offering were \$173,104,000 and the share issue costs totaled \$10,780,000 which included a 6% underwriting commission of \$10,386,000 and other offering expenses.

(expressed in US dollars, tabular amounts in thousands)

b) Warrants

Issued

	Warrants	
	Number (in thousands)	\$
Balance as at January 1, 2018	1,172	906
Warrants exercised	(1,172)	(906)
Balance as at December 31, 2018	—	—
Balance as at January 1, 2017	1,257	971
Warrants exercised	(85)	(65)
Balance as at December 31, 2017	1,172	906

A summary of the outstanding warrants as at December 31, 2018 is presented below:

Expiry date	Number (in thousands)	Weighted average exercise price \$
February 14, 2019 (notes 11 and 23)	1,738	3.22
December 28, 2021 (note 11)	3,523	3.00
	5,261	3.07

c) Stock options and compensation expense

A summary of the stock options outstanding as at December 31, 2018 and 2017 and changes during the years ended on those dates is presented below:

	2018		2017	
	Number	Weighted average exercise price in CAS	Number	Weighted average exercise price in CAS
Outstanding – Beginning of year	4,864	4.80	4,052	3.74
Granted pursuant to Stock Option Plan	3,003	6.54	2,729	5.44
Exercised	(276)	4.40	(1,494)	3.42
Forfeited	—	—	(423)	3.54
Outstanding – End of year	7,591	5.51	4,864	4.80
Options exercisable – End of year	4,510	5.03	2,834	4.25

On June 8, 2016, the Shareholders of the Company approved the amendment to the Stock Option Plan 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 December 31, 2018, there were 85,500,000 Common Shares of the Company issued and outstanding, resulting in a maximum of 10,688,000 options available for issuance under the Stock Option Plan. An aggregate total of 7,427,000 options are presently outstanding in the Stock Option Plan, representing 8.7% of the issued and outstanding Common Shares of the Company.

In addition, on May 2, 2016, the Company granted 200,000 inducement stock options to a new employee pursuant to Section 613(c) of the TSX Company Manual at a price of \$2.92 (CA\$3.66). These options vest in equal amounts over 36 months and are exercisable for a term of five years. In 2018 this employee exercised 20,000 (2017 - 16,000) of these options to hold 164,000. These options are recorded outside of the Company's stock option plan.

(expressed in US dollars, tabular amounts in thousands)

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 of Directors approves the vesting criteria and periods at its discretion. The options issued under the plan are accounted for as equity-settled share-based payments.

A summary of the stock options granted pursuant to the Stock Option Plan for the years ended December 31, 2018 and 2017 is presented below:

Year ended December 31, 2018

Grant date	Grant price ⁽⁵⁾		Number
	US\$	CAS	
February 1, 2018 - Employees ⁽²⁾	5.30	6.52	503
February 1, 2018 - Officers ⁽²⁾	5.30	6.52	1,675
February 5, 2018 - Chief Executive Officer ⁽²⁾	5.19	6.42	400
February 5, 2018 - Directors ⁽¹⁾	5.19	6.42	150
February 9, 2018 - Director ⁽¹⁾	5.09	6.40	50
February 22, 2018 - Director ⁽¹⁾	5.46	6.92	50
March 21, 2018 - Officer ⁽³⁾	5.40	7.06	150
October 17, 2018 - New Employees ⁽³⁾	5.93	7.70	25
			3,003

Year ended December 31, 2017

Grant date	Grant price ⁽⁵⁾		Number
	US\$	CAS	
January 20, 2017 - New Director ⁽¹⁾	2.74	3.65	10
January 27, 2017 - Employee ⁽²⁾	3.02	3.96	25
February 9, 2017 - Chief Executive Officer ⁽⁴⁾	3.20	4.21	1,050
February 9, 2017 - Officers ⁽²⁾	3.20	4.21	747
February 9, 2017 - Employees ⁽²⁾	3.20	4.21	89
February 16, 2017 - Directors ⁽¹⁾	3.62	4.73	50
April 26, 2017 - Officer ⁽⁵⁾	6.95	9.45	50
April 26, 2017 - Employees ⁽³⁾	6.95	9.45	183
April 26, 2017 - Directors ⁽³⁾	6.95	9.45	100
June 23, 2017 - New Director ⁽³⁾	6.40	8.48	50
July 5, 2017 - New Officer ⁽³⁾	6.24	8.10	280
September 20, 2017 - New Employees ⁽³⁾	6.19	7.59	60
October 25, 2017 - New Employee ⁽³⁾	5.72	7.30	5
November 20, 2017 - New Employees ⁽³⁾	5.13	6.56	30
			2,729

1. These options vest in equal amounts over 12 months and are exercisable for a term of ten years
2. These options vest in equal amounts over 36 months and are exercisable for a term of ten years.
3. These options vest 12/36 on the 12-month anniversary date and thereafter 1/36 per month over the next 24 months and are exercisable for a term of ten years.
4. One quarter of the options vested immediately, with the remainder of the options vesting each month in equal amounts over a period of 36 months and are exercisable for a term of ten years.
5. Stock options are granted at a Canadian Dollar (CAS) exercise price, and converted to US Dollars (US\$) based on the exchange rate when these stock options are granted.

Application of the fair value method resulted in charges to stock-based compensation expense of \$6,860,000 for the year ended December 31, 2018 (2017 – \$4,242,000) with corresponding credits to contributed surplus. For the year ended December 31, 2018, stock compensation expense has been allocated to research and development expense in the amount of \$2,697,000 (2017 – \$993,000) and corporate, administration and business development expense in the amount of \$4,163,000 (2017 – \$3,249,000).

(expressed in US dollars, tabular amounts in thousands)

If the stock price volatility was higher by a factor of 10% on the option grant dates in 2018, this would have increased annual stock compensation expense by approximately \$308,000. If the stock price volatility was lower by a factor of 10% on the grant date, this would have decreased annual stock compensation expense by approximately \$265,000.

The Company used the Black-Scholes option pricing model to estimate the fair value of the options granted in 2018 and 2017.

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 behavior.

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

	2018	2017
Annualized volatility	55%	74%
Risk-free interest rate	2.04%	1.31%
Expected life of options in years	4 years	6.6 years
Estimated forfeiture rate	22.4%	25.5%
Dividend rate	0.0%	0.0%
Exercise price	\$ 5.29	\$ 4.12
Market price on date of grant	\$ 5.29	\$ 4.12
Fair value per common share option	\$ 2.89	\$ 2.79

The following table summarizes information on stock options outstanding as at December 31, 2018:

Range of exercise prices CAS	Options outstanding		Options exercisable	
	Number outstanding (in thousands)	Weighted average remaining contractual life (years)	Number outstanding (in thousands)	
3.39 - 4.00	828	3.37	764	
4.21 - 5.19	3,075	5.42	2,446	
6.40 - 6.92	2,805	9.09	882	
7.06 - 9.45	883	8.61	418	
	7,591	6.92	4,510	

13 Nature of expenses

	2018	2017
	\$	\$
Research and development		
Contract research organizations (CROs) and other third party clinical trial expenses	27,923	21,634
Drug supply and distribution	4,893	7,124
Salaries, incentive pay and employee benefits	4,260	3,065
Stock compensation expense	2,697	993
Travel, insurance, patent annuity fees, legal fees and other	1,609	1,114
	41,382	33,930

(expressed in US dollars, tabular amounts in thousands)

	2018 \$	2017 \$
Corporate, administration and business development		
Salaries, incentive pay, director fees and employee benefits	4,600	4,239
Stock compensation expense	4,163	3,249
Professional and consulting fees	2,307	2,125
Rent, insurance, information technology and other public company operating costs	1,704	1,327
Travel, tradeshows and sponsorships	900	1,156
	<u>13,674</u>	<u>12,096</u>

**14 Other expense
(income)**

	2018 \$	2017 \$
Finance income		
Interest income	(2,234)	(1,040)
Loss on sale of short term investments	—	338
	<u>(2,234)</u>	<u>(702)</u>
Other		
Revaluation adjustment on contingent consideration (note 10)	236	502
Foreign exchange loss (gain) and other	(67)	3
Loss on disposal of equipment	—	1
	<u>169</u>	<u>506</u>
	<u>(2,065)</u>	<u>(196)</u>

**15 Income
taxes**

As at December 31, 2018, the Company has available Canadian non-capital losses in the amount of \$163,144,000 (2017 – \$117,232,000) and scientific research and experimental development expenditures (SRED) in the amount of \$3,732,000 (2017 – nil) to reduce Canadian taxable income in future years. The Company has unclaimed investment tax credits of \$1,926,000 (2017 – \$1,409,000) available to reduce future Canadian income taxes otherwise payable.

The SRED expenditures do not expire. The losses and credits will expire as follows:

	Non-capital losses carried forward \$	Federal investment tax credits \$
2029	3,294	30
2030	2,341	50
2031	1,786	280
2032	7,425	184
2033	5,325	75
2034	13,032	131
2035	18,749	203
2036	21,140	206
2037	42,316	353
2038	47,736	414

(expressed in US dollars, tabular amounts in thousands)

As at December 31, 2018 and December 31, 2017, temporary differences for which no deferred tax asset was recognized were as follows:

	2018 \$	2017 \$
Deferred tax assets (liabilities)		
Loss carry-forwards	44,264	31,700
Share issue costs	2,433	3,364
Deferred revenue and contingent consideration	1,207	1,175
Property and equipment	—	2
Intangible assets	1,248	1,507
SRED	991	—
Other	231	159
	<u>50,374</u>	<u>37,907</u>
Potential tax assets not recognized	<u>(50,374)</u>	<u>(37,907)</u>
Net deferred tax assets	<u>—</u>	<u>—</u>

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

The difference between the expected income tax recovery based on a 27.0% (2017 – 27.0%) Canadian statutory tax rate and the actual income tax expense recorded is summarized as follows:

	2018 \$	2017 \$
Expected recovery at the statutory rate	(17,312)	(19,135)
Non-taxable revaluation of warrant liabilities	2,688	6,459
Non-deductible expenses including stock compensation	2,157	1,418
Unrecognized deductible temporary differences	12,467	11,258
Income taxes related to foreign subsidiaries	<u>73</u>	<u>—</u>
Total income tax expense	<u>73</u>	<u>—</u>

16 Net loss per common share

Basic and diluted net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding for the year. In determining diluted net loss per common share, the weighted average number of common shares outstanding is adjusted for stock options and warrants eligible for exercise where the average market price of common shares for the year ended December 31, 2018 exceeds the exercise price. Common shares that could potentially dilute basic net loss per common share in the future that could be issued from the exercise of stock options and warrants were not included in the computation of the diluted loss per common share for the year ended December 31, 2018 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:

	2018 \$	2017 \$
Net loss for the year	<u>(64,120)</u>	<u>(70,792)</u>
	Number	Number
Weighted average common shares outstanding	<u>84,782</u>	<u>76,918</u>
	\$	\$
Net loss per common share (expressed in \$ per share)	<u>(0.76)</u>	<u>(0.92)</u>

(expressed in US dollars, tabular amounts in thousands)

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:

	2018	2017
Stock options	1,567	1,222
Warrants (derivative liabilities)	2,420	2,415
Warrants (equity)	—	632
	<u>3,987</u>	<u>4,269</u>

17 Segment disclosures

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

The following geographic information reflects revenue based on customer location.

	2018 \$	2017 \$
Revenue		
United States	345	300
China	118	118
	<u>463</u>	<u>418</u>

18 Supplementary cash flow information

Net change in other operating assets and liabilities

	2018 \$	2017 \$
Accounts receivable and accrued interest receivable	(108)	(23)
Prepaid expenses, deposits and other	(5,094)	2
Clinical trial contract deposits	90	(448)
Accounts payable and accrued liabilities	(888)	2,168
	<u>(6,000)</u>	<u>1,699</u>
Interest received	<u>2,148</u>	<u>973</u>

(expressed in US dollars, tabular amounts in thousands)

Cash flows from financing and investing activities:

	Short term investments	Contingent consideration	Derivative warrants December 28, 2016	Derivative warrants February 14, 2014	Common shares	Warrants	Contributed surplus
Balance at January 1, 2018	7,833	(3,792)	(8,948)	(2,845)	(499,200)	(906)	(18,360)
Cash flow - Purchases	36,084	—	—	—	—	—	—
Cash flow - Proceeds from short term investment	(36,093)	—	—	—	—	—	—
Cash flow - Proceeds from exercise of warrants	—	—	—	—	(3,071)	—	—
Cash flow - Proceeds from exercise of options	—	—	—	—	(943)	—	—
Non-cash changes - Conversion to common shares	—	—	—	—	(1,436)	906	530
Non-cash changes - Fair value adjustments	—	(236)	(6,527)	(3,427)	—	—	—
Non-cash changes - Stock based compensation	—	—	—	—	—	—	(6,860)
Non-cash changes - Opening adjustment on change in accounting policy	78	—	—	—	—	—	—
Non-cash changes - Other	(13)	—	—	—	—	—	—
Balance at December 31, 2018	7,889	(4,028)	(15,475)	(6,272)	(504,650)	—	(24,690)
Balance at January 1, 2017	—	(5,440)	(7,405)	(1,733)	(299,815)	(971)	(17,017)
Cash flow - Purchases	97,996	—	—	—	—	—	—
Cash flow - Disposals	(90,018)	—	—	—	—	—	—
Cash flow - Payments made	—	2,150	—	—	—	—	—
Cash flow - Net proceeds from public offering	—	—	—	—	(162,324)	—	—
Cash flow - Proceeds from exercise derivative warrants	—	—	8,596	88	(8,684)	—	—
Cash flow - Proceeds from exercise warrants	—	—	—	—	(232)	—	—
Cash flow - Proceeds from exercise options	—	—	—	—	(3,912)	—	—
Non-cash changes - Conversion to Common Shares	—	—	3,825	8,760	(21,334)	65	2,899
Non-cash changes - Fair value adjustments	(78)	(502)	(17,808)	(10,973)	(2,899)	—	—
Non-cash changes - Stock Based Compensation	—	—	—	—	—	—	(4,242)
Non-cash changes - Other	(67)	—	3,844	1,013	—	—	—
Balance at December 31, 2017	7,833	(3,792)	(8,948)	(2,845)	(499,200)	(906)	(18,360)

(expressed in US dollars, tabular amounts in thousands)

19 Related parties

Compensation of key management

Compensation awarded to key management was composed of the following:

	2018 \$	2017 \$
Salaries and short-term employee benefits	2,042	2,961
Bonuses accrued or paid	879	1,300
Severance costs	—	544
Director fees	446	217
Stock-based compensation	4,971	3,560
	<u>8,338</u>	<u>8,582</u>

In 2018 the Company defined key management as Directors and executive officers whereas in 2017 the Company's key management was defined as all Directors and officers. This change in definition is a result of the Company's continued growth and the hiring of additional personnel, requiring a narrower focus on the definition of key management. In 2017, compensation for Directors and executive officers was \$6,812,000.

Other

Stephen P. Robertson, a partner at Borden Ladner Gervais (BLG) acts as the Company's corporate secretary. The Company incurred legal fees in the normal course of business to BLG of \$152,000 for the year ended December 31, 2018 (\$255,000 for the year ended December 31, 2017). We have no ongoing contractual or other commitments as a result of engaging Mr. Robertson to act as our corporate secretary. Mr. Robertson receives no additional compensation for acting as the corporate secretary beyond his standard hourly billing rate.

The outstanding contingent consideration payable to ILJIN, an affiliated shareholder, is the result of an Arrangement Agreement (the Arrangement Agreement) completed on September 20, 2013 between the Company, Aurinia Pharma Corp. and ILJIN. At December 31, 2017, pursuant to the Arrangement Agreement, payments of up to \$7.85 million may be payable and are based on the achievement of pre-defined clinical and marketing milestones. The contingent consideration payable to ILJIN is more fully discussed in note 10 of the audited consolidated financial statements for the year ended December 31, 2018.

20 Commitments and contingencies

The Company entered into an agreement, effective June 1, 2014, to sublease 5,540 square feet of office and storage space at its head office location in Victoria, British Columbia. The sublease is for a term of five years. On December 6, 2018 the Company signed a commitment letter and entered into a new sublease on January 28, 2019 to rent 9,406 square feet of office and storage space at the existing location effective June 1, 2019. The new sublease is for a term of three years, the Company has the ability to cancel upon twelve months notice. The estimated base rent plus operating costs for the period from January 1, 2019 to May 31, 2019 is approximately \$11,000 per month increasing to approximately \$21,000 per month for the period of June 1, 2019 to May 31, 2022.

The Company entered into an agreement on November 14, 2014 to lease 1,247 square feet of office space for a term of two years commencing on January 1, 2015 for the Edmonton, Alberta registered office where the Company's finance group is located. The lease was subsequently renewed until December 31, 2019 at a cost of approximately \$1,400 per month on the same terms as the original lease.

The Company incurred rent expense, including base rent and operating costs of \$168,000 for the year ended December 31, 2018 and \$143,000 for the year ended December 31, 2017.

The Company has entered into contractual obligations for services and materials required for its clinical trial program, drug manufacturing and other operational activities.

(expressed in US dollars, tabular amounts in thousands)

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

	Operating leases \$	Purchase obligations \$
2019	208	12,568
2020	241	6,051
2021	246	71
2022	105	8
	800	18,698

Contingencies

- i) The Company may, from time to time, be subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. Management believes the ultimate resolution of such contingencies will not have a material adverse effect on the consolidated financial position of the Company.
- ii) The Company entered into indemnification agreements with its officers and directors. The maximum potential amount of future payments required under these indemnification agreements is unlimited. However, the Company does maintain liability insurance to limit the exposure of the Company.
- iii) The Company entered into an agreement dated February 14, 2014 whereby the Company is required to pay a third party a royalty equivalent to 2% of royalties received on the sale of voclosporin by licensees and/or 0.3% of net sales of voclosporin sold directly by the Company. Should the Company sell substantially all of the assets of voclosporin to a third party or transfer those assets to another party in a merger in a manner such that this payment obligation is no longer operative, then the Company would be required to pay 0.3% of the value attributable to voclosporin in the transaction.
- iv) The Company has entered into license and research and development agreements with third parties that include indemnification and obligation provisions that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of third party claims or damages arising from these transactions. These provisions may survive termination of the underlying agreement. The nature of the obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements.

21 Capital management

The Company's objective in managing capital, consisting of shareholders' equity, with cash, cash equivalents and short term investments being its primary components, is to ensure sufficient liquidity to fund research and development activities, corporate, administration and business development expenses and working capital requirements. The capital management objective of the Company remains the same as that in the previous period.

Over the past two years, the Company has raised capital via a public offering, the exercise of warrants and stock options and draw-downs subsequent to year end under our November 30, 2018 ATM facility as its primary sources of liquidity, as discussed in note 12 - Share capital.

As the Company's policy is to retain cash to keep funds available to finance the activities required to advance the Company's product development it does not currently pay dividends. The Company is not subject to any capital requirements imposed by any regulators or by any other external source.

22 Financial instruments and fair values

As explained in note 2, financial assets and liabilities have been classified into categories that determine their basis of measurement and for items measured at fair value, whether changes in fair value are recognized in the consolidated statements of operations and comprehensive loss. Those categories are fair value through profit or loss; FVOCI; and, assets and liabilities at amortized cost.

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

(expressed in US dollars, tabular amounts in thousands)

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

The Company has determined the carrying values of its short-term financial assets and financial liabilities, including cash and cash equivalents, short term investments, accounts receivable, accrued receivables and accounts payable and accrued liabilities approximate their fair value because of the relatively short period to maturity of the instruments. Information on the fair value of contingent consideration is included in note 10, and information on the fair value of derivative warrant liability is included in note 11.

Financial risk factors

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

- Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk through the management of its capital structure and financial leverage, as discussed in note 21. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's budget, as well as any material transactions out of the ordinary course of business. The Company invests its cash equivalents in US denominated term deposits with 30 to 90-day maturities, and short term investments consisting of bonds and treasury notes issued by banks with maturities not exceeding two years to ensure the Company's liquidity needs are met.

All of the Company's financial liabilities are due within one year except for the contingent consideration, as described in note 10, and the derivative warrant liabilities, as described in note 11.

- Interest rate risk

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

Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash and cash equivalents are comprised of highly liquid investments that earn interest at market rates and the short term investments are comprised of low risk bank bonds with a maturity of two years or less. Accounts receivable and accounts payable and accrued liabilities bear no interest.

The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Company's exposure to interest rate risk as at December 31, 2018 is considered minimal as the majority of its financial resources are held as cash and cash equivalents.

(expressed in US dollars, tabular amounts in thousands)

- Foreign currency risk

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

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

	2018 \$	2017 \$
Cash and cash equivalents	364	125
Accounts receivable and accrued interest receivable	24	28
Accounts payable and accrued liabilities	(1,677)	(1,657)
Net exposure	<u>(1,289)</u>	<u>(1,504)</u>

	Reporting date rate	
	2018 \$	2017 \$
CAS – US\$	<u>0.733</u>	<u>0.797</u>

Based on the Company's foreign currency exposure noted above, varying the foreign exchange rates to reflect a ten percent strengthening of the CAS would have increased the net loss by \$128,000 assuming all other variables remained constant. An assumed 10% weakening of the CAS would have had an equal but opposite effect to the amounts shown above, on the basis all other variables remain constant.

Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents and short term investments which were held at three major Canadian banks. The Company regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in expected loss.

23 Subsequent events

ATM Facility

Subsequent to year-end the ATM Facility as described in Note 12a was fully utilized resulting in gross proceeds of \$30,000,000 upon the issuance of 4,608,000 common shares at a weighted average price of \$6.55. The Company incurred share issue costs of \$1,170,000 including a 3% commission of \$900,000 paid to the agent and professional and filing fees of \$270,000 directly related to the ATM.

Stock Options

Subsequent to year-end, the Company issued 377,000 common shares upon the exercise of 377,000 stock options for proceeds of \$1,304,000 and granted 1,365,000 stock options to the officers, directors and employees of the Company at a weighted average price of \$6.06 (CA \$8.04). In addition, 234,000 stock options were forfeited.

Exercise of derivative warrants related to February 14, 2014 private placement offering

Subsequent to year end, the 1,738,000 derivative warrants outstanding at December 31, 2018 related to the February 14, 2014 private placement offering, were exercised. Certain holders of these Warrants elected the cashless exercise option and the Company issued 687,000 common shares on the cashless exercise of 1,274,000 Warrants. The remaining 464,000 warrants were exercised for cash, at a price of \$3.2204 and the Company received cash proceeds of \$1,494,000 upon the issuance of 464,000 common shares.

Pursuant to the exercise of these warrants, the Company will transfer \$5,919,000 from derivative warrant liabilities to equity (common shares) and record an adjustment of \$352,000 through the statement of operations and comprehensive loss related to the change in estimated fair value of derivative warrant liabilities in the first quarter ended March 31, 2019. As a result, the derivative warrant liability of \$6,271,000 at December 31, 2018 related to the February 14, 2014 private placement offering has been extinguished upon the exercise of the aforementioned warrants.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2018

In this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), unless the context otherwise requires, references to "we", "us", "our" or similar terms, as well as references to "Aurinia" or the "Company", refer to Aurinia Pharmaceuticals Inc., together with our subsidiaries.

The following MD&A provides information on the activities of Aurinia on a consolidated basis and should be read in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2018 and our annual MD&A and audited financial statements for the year ended December 31, 2017. All amounts are expressed in United States (US) dollars unless otherwise stated. Dollar amounts in tabular columns are expressed in thousands of US dollars. This document is current in all material respects as of March 15, 2019.

The financial information contained in this MD&A and in our audited consolidated financial statements has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The audited consolidated financial statements and MD&A have been reviewed and approved by our Audit Committee. This MD&A has been prepared with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Under the U.S./Canada Multijurisdictional Disclosure System, Aurinia is permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which are different from those in the United States.

FORWARD-LOOKING STATEMENTS

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

Securities laws encourage companies to disclose forward-looking information so that investors can get a better understanding of our future prospects and make informed investment decisions. These statements, made in this MD&A, may include, without limitation:

- our belief that the Phase 2b lupus nephritis ("LN") AURA- LV ("AURA") clinical trial had positive results;
- our belief that we have sufficient cash resources to adequately fund operations;
- our belief that the totality of data from both the single double-blind, randomized, placebo controlled Phase 3 clinical trial for voclosporin in the treatment of LN ("AURORA") and AURA clinical trials can potentially serve as the basis for a New Drug Application (an "NDA") with the Food and Drug Administration of the United States Government (the "FDA") following a successful completion of the AURORA clinical trial;
- our belief that confirmatory data generated from the single AURORA clinical trial and the completed AURA clinical trial should support regulatory submissions in the United States, Europe and Japan and the timing of such, including the NDA submission in the United States;
- our belief that 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;
- our belief in the duration of patent exclusivity for voclosporin and that the patents owned by us are valid;
- our belief in receiving extensions to patent life based on certain events or classifications;
- our plans and expectations and the timing of commencement, enrollment, completion and release of results of clinical trials;
- our current forecast for the cost of the AURORA clinical trial and the AURORA 2 extension trial;
- our 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;
- our belief of the key potential benefits of voclosporin in the treatment of LN and other podocytopathies;
- our target launch date for voclosporin as a treatment for LN for early 2021;
- our belief in voclosporin being potentially a best-in-class CNI (as defined below) with robust intellectual property exclusivity and the benefits over existing commercially available CNIs;
- our belief that CNIs are a mainstay of treatment for DES;
- our belief that voclosporin has further potential to be effectively used across a range of therapeutic autoimmune areas including focal segmental glomerulosclerosis ("FSGS"), and keratoconjunctivitis sicca ("Dry Eye Syndrome" or "DES");
- the timing for completion of enrollment and for data availability for our Phase 2 study for voclosporin in FSGS patients;
- statements concerning the anticipated commercial potential of voclosporin for the treatment of LN, FSGS and DES;
- our plan to expand voclosporin renal franchise to include FSGS;
- our belief that the expansion of the renal franchise could create significant value for shareholders;
- our intention to use the net proceeds from financings for various purposes;

- our belief that our current financial resources are sufficient to fund our existing LN program including the AURORA trial and the NDA submission to the FDA, conduct the current Phase 2 study for FSGS, commence additional studies for DES and fund operations into mid-2020.
- our plans to generate future revenues from products licensed to pharmaceutical and biotechnology companies;
- statements concerning partnership activities and health regulatory discussions;
- statements concerning the potential market for voclosporin;
- our ability to take advantage of financing opportunities if and when needed;
- our belief that voclosporin ophthalmic solution ("VOS") has the potential to compete in the multi-billion-dollar human prescription dry eye market;
- our intention to seek additional corporate alliances and collaborative agreements to support the commercialization and development of our products;
- our belief that the United States Patent and Trademark Office (the "USPTO") will issue a new patent covering the dosing protocol for voclosporin in LN, with a patent term extending to 2037;
- our belief that additional patents may be granted worldwide based on our filings under the Patent Cooperation Treaty ("PCT");
- our strategy to become a global biopharmaceutical company;
- our plan to conduct a confirmatory drug-drug interaction study; and
- our plan to conduct a study with pediatric patients.

Such statements reflect our 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 management, as at the date of such statements, are inherently subject to significant business, economic, competitive, political, regulatory, legal, scientific and social uncertainties and contingencies, many of which, with respect to future events, are subject to change. The factors and assumptions used by management to develop such forward-looking statements include, but are not limited to:

- the assumption that we will be able to obtain approval from regulatory agencies on executable development programs with parameters that are satisfactory to us;
- the assumption that recruitment to clinical trials will occur as projected;
- the assumption that we will successfully complete our clinical programs on a timely basis, including conducting the required AURORA clinical trial and meet regulatory requirements for approval of marketing authorization applications and new drug approvals, as well as favourable product labeling;
- the assumption that the planned studies will achieve positive results;
- the assumptions regarding the costs and expenses associated with our clinical trials;
- the assumption that regulatory requirements and commitments will be maintained;
- the assumption that we will be able to meet Good Manufacturing Practice ("GMP") standards and manufacture and secure a sufficient supply of voclosporin on a timely basis to successfully complete the development and commercialization of voclosporin;
- the assumptions on the market value for the LN program;
- the assumption that our patent portfolio is sufficient and valid;
- the assumption that the USPTO will issue a new patent for its dosing protocol once applicable steps have been followed and fees paid;
- the assumption that we will be able to extend our patents to the fullest extent allowed by law, on terms most beneficial to us;
- the assumptions on the market;
- the assumption that there is a potential commercial value for other indications for voclosporin;
- the assumption that market data and reports reviewed by us are accurate;
- the assumption that another company will not create a substantial competitive product for Aurinia's LN business without violating Aurinia's intellectual property rights;
- the assumptions on the burn rate of Aurinia's cash for operations;
- the assumption that our current good relationships with our suppliers, service providers and other third parties will be maintained;
- the assumption that we will be able to attract and retain a sufficient amount of skilled staff and/or
- the assumptions relating to the capital required to fund operations through AURORA clinical trial results and regulatory submission.

It is important to know that:

- actual results could be materially different from what we expect if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we 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 our 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 depend 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 our business.

The factors discussed below and other considerations discussed in the “Risk Factors” section of this MD&A could cause our actual results to differ significantly from those contained in any forward-looking statements.

Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results,

performance, or achievements to differ materially from any assumptions, further results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause such differences include, among other things, the following:

- the need for additional capital in the future to continue to fund our development programs and commercialization activities, and the effect of capital market conditions and other factors on capital availability;
- competition;
- difficulties, delays, or failures we may experience in the conduct of and reporting of results of our clinical trials for voclosporin;
- difficulties in meeting GMP standards and the manufacturing and securing of a sufficient supply of voclosporin on a timely basis to successfully complete the development and commercialization of voclosporin;
- difficulties, delays or failures in obtaining regulatory approvals for the initiation of clinical trials;
- difficulties in gaining alignment among the key regulatory jurisdictions, European Medicines Agency, FDA and Pharmaceutical and Medical Devices Agency, which may require further clinical activities;
- difficulties, delays or failures in obtaining regulatory approvals to market voclosporin;
- not being able to extend our patent portfolio for voclosporin;
- our patent portfolio not covering all of our proposed uses of voclosporin;
- difficulties we may experience in completing the development and commercialization of voclosporin;
- the market for the LN business may not be as we have estimated;
- insufficient acceptance of and demand for voclosporin;
- difficulties obtaining adequate reimbursements from third party payors;
- difficulties obtaining formulary acceptance;
- competitors may arise with similar products;
- product liability, patent infringement and other civil litigation;
- injunctions, court orders, regulatory and other enforcement actions;
- we may have to pay unanticipated expenses, and/or estimated costs for clinical trials or operations may be underestimated, resulting in our having to make additional expenditures to achieve our current goals;
- difficulties, restrictions, delays, or failures in obtaining appropriate reimbursement from payors for voclosporin;
- difficulties we may experience in identifying and successfully securing appropriate vendors to support the development and commercialization of our product; and/or
- uncertainty that the FDA will agree to a label that will follow the dosing protocol under the Notice of Allowance for claims directed at our novel voclosporin dosing protocol for LN (U.S. patent application 15/835,219).

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

For additional information on risks and uncertainties in respect of the Company and its business, please see the "Risks and Uncertainties" section of this MD&A. Although we believe 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 we can give no assurance that such expectations will prove to be correct.

Additional information related to Aurinia, including its most recent Annual Information Form ("AIF"), 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

Aurinia is a late clinical stage biopharmaceutical company focused on developing and commercializing therapies to treat targeted patient populations that are suffering from serious diseases with a high unmet medical need. We are currently developing voclosporin, an investigational drug, for the potential treatment of LN, DES and FSGS.

Our head office is located at #1203-4464 Markham Street, Victoria, British Columbia V8Z 7X8. Aurinia 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). Our common shares (the "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".

We have two wholly-owned subsidiaries: Aurinia Pharma U.S., Inc., (Delaware incorporated) and Aurinia Pharma Limited (United Kingdom incorporated).

BUSINESS OF THE COMPANY

We are currently developing voclosporin, an investigational drug, for the potential treatment of LN, DES and FSGS. Voclosporin is a next generation calcineurin inhibitor ("CNI") which has clinical data in over 2,400 patients across multiple indications. It has also been previously studied in kidney rejection following transplantation, psoriasis and in various forms of uveitis (an ophthalmic disease).

The topical formulation of voclosporin, VOS, is an aqueous, preservative free nanomicellar solution intended for use in the treatment of DES. Studies have been completed in rabbit and dog models. A single Phase 1 study and a Phase 2a head-to-head study have also been completed in healthy volunteers and patients with DES. VOS has IP protection until 2031.

Legacy CNIs have demonstrated efficacy for a number of conditions, including transplant, DES and other autoimmune diseases; however, side effects exist which can limit their long-term use and tolerability. Some clinical complications of legacy CNIs include hypertension, hyperlipidemia, diabetes, and both acute and chronic nephrotoxicity.

Voclosporin is an immunosuppressant, with a synergistic and dual mechanism of action that has the potential to improve near and long-term outcomes in LN when added to mycophenolate mofetil ("MMF"), although not approved for such, the current standard of care for LN. By inhibiting calcineurin, voclosporin reduces cytokine activation and blocks interleukin IL-2 expression and T-cell mediated immune responses. Voclosporin also potentially stabilizes disease modifying podocytes, which protects against proteinuria. Voclosporin is made by a modification of a single amino acid of the cyclosporine molecule. This modification may result in a more predictable pharmacokinetic and pharmacodynamic relationship, an increase in potency, an altered metabolic profile, and easier dosing without the need for therapeutic drug monitoring. Clinical doses of voclosporin studied to date range from 13 - 70 mg administered twice a day ("BID"). 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, psoriasis, rheumatoid arthritis, and for LN in Japan. We believe that voclosporin possesses pharmacologic properties with the potential to demonstrate best-in-class differentiation with first-in-class regulatory approval status for the treatment of LN outside of Japan.

Based on published data, we believe the key potential benefits of voclosporin in the treatment of LN and other podocytopathies are as follows:

- increased potency compared to cyclosporine A, allowing lower dosing requirements and fewer off target effects;
- limited inter and intra patient variability, allowing for easier dosing without the need for therapeutic drug monitoring;
- less cholesterolemia and triglyceridemia than cyclosporine A;
- and
- limited incidence of glucose intolerance and diabetes at therapeutic doses compared to tacrolimus.

Our target launch date for voclosporin as a treatment for LN is early 2021.

LN

LN is an inflammation of the kidney caused by systemic lupus erythematosus ("SLE") and represents a serious manifestation of SLE. SLE is a chronic, complex and often disabling disorder. SLE is highly heterogeneous, affecting a wide range of organs and tissue systems. Unlike SLE, LN has straightforward disease measures (readily assessable and easily identified by specialty treaters) where an early response correlates with long-term outcomes, measured by proteinuria. In patients with LN, renal damage results in proteinuria and/or hematuria and a decrease in renal function as evidenced by reduced estimated glomerular filtration rate ("eGFR"), and increased serum creatinine levels. eGFR is assessed through the Chronic Kidney Disease Epidemiology Collaboration equation. Rapid control and reduction of proteinuria in LN patients measured at six months shows a reduction in the need for dialysis at 10 years (Chen et al., Clin J. Am Soc Neph., 2008). LN can be debilitating and costly and if poorly controlled, can lead to permanent and irreversible tissue damage within the kidney. Recent literature suggests severe LN progresses to end-stage renal disease ("ESRD"), within 15 years of diagnosis in 10%-30% of patients, thus making LN a serious and potentially life-threatening condition. SLE patients with renal damage have a 14-fold increased risk of premature death, while SLE patients with ESRD have a greater than 60-fold increased risk of premature death. Mean annual cost for patients (both direct and indirect) with SLE (with no nephritis) have been estimated to exceed \$20,000 per patient, while the mean annual cost for patients (both direct and indirect) with LN who progress to intermittent ESRD have been estimated to exceed \$60,000 per patient (Carls et al., *JOEM*, Volume 51, No. 1, January 2009).

DES

DES or dry eye disease or keratoconjunctivitis sicca, is characterized by irritation and inflammation that occurs when the eye's tear film is compromised by reduced tear production, imbalanced tear composition, or excessive tear evaporation. The impact of DES ranges from subtle, yet constant eye irritation to significant inflammation and scarring of the eye's surface. Discomfort and pain resulting from DES can reduce quality of life and cause difficulty reading, driving, using computers and performing daily activities. DES is a chronic disease. There are currently two FDA approved therapies for the treatment of dry eye; however, there is opportunity for potential improvement in the effectiveness by enhancing tolerability and onset of action and alleviating the need for repetitive dosing. The disease is estimated to affect greater than 20 million people in the United States (*Market Scope, 2010 Comprehensive Report on The Global Dry Eye Products Market*).

FSGS

FSGS is a rare disease that attacks the kidney's filtering units (glomeruli) causing serious scarring which leads to permanent kidney damage and even renal failure. FSGS is one of the leading causes of Nephrotic Syndrome ("NS") and is identified by biopsy and proteinuria. NS is a collection of signs and symptoms that indicate kidney damage, including: large amounts of protein in urine; low levels of albumin and higher than normal

fat and cholesterol levels in the blood, and edema. Similar to LN, early clinical response which can be measured by reduction of proteinuria in addition to maintaining podocyte structural and functional integrity, is thought to be critical to long-term kidney health in patients with FSGS.

FSGS is likely the most common primary glomerulopathy leading to ESRD. The incidence of FSGS and ESRD due to FSGS are increasing as time goes on. Precise estimates of incidence and prevalence are difficult to determine. According to NephCure Kidney International, more than 5,400 patients are diagnosed with FSGS every year; however, this is considered an underestimate because a limited number of biopsies are performed. The number of FSGS cases are rising more than any other cause of NS and the incidence of FSGS is increasing through disease awareness and improved diagnosis. FSGS occurs more frequently in adults than in children and is most prevalent in adults 45 years or older. FSGS is most common in people of African American and Asian descent. It has been shown that the control of proteinuria is important for long-term dialysis-free survival of these patients. Currently, there are no approved therapies for FSGS in the United States or the European Union.

STRATEGY

Our business strategy is to optimize the clinical and commercial value of voclosporin and become a global biopharma company with a focused renal and autoimmune franchise. This includes the expansion of a potential renal franchise with additional renal indications and the exploitation of voclosporin in novel formulations for treatment of autoimmune related disorders.

We have strategically developed a plan to expand our voclosporin renal franchise to include FSGS. Additionally, we are also furthering development of VOS for the treatment of DES. The advancement of these new indications, in addition to LN, represents an expansion of our pipeline and commercial opportunities.

The key elements of our corporate strategy include:

- advancing voclosporin through the AURORA Phase 3 clinical trial with anticipated completion of this trial in the fourth quarter of 2019;
- conducting a Phase 2 proof of concept study for the additional renal indication of FSGS;
and
- conducting additional studies of VOS, while assessing mechanisms to maximize shareholder value through both clinical and business development initiatives.

RECENT DEVELOPMENTS

PATENT NOTICE OF ALLOWANCE

On February 25, 2019, we announced that we had received a notice of allowance (the "**Notice of Allowance**") from the USPTO for claims directed at our novel voclosporin dosing protocol for LN (U.S. patent application 15/835,219, entitled "*PROTOCOL FOR TREATMENT OF LUPUS NEPHRITIS*").

The allowed claims broadly cover the novel voclosporin *individualized flat-dosed pharmacodynamic treatment protocol* adhered to and required in both the previously reported Phase 2 AURA-LV trial and our ongoing Phase 3 confirmatory AURORA trial. Notably, the allowed claims cover a method of modifying the dose of voclosporin in patients with LN based on patient specific pharmacodynamic parameters.

This Notice of Allowance concludes a substantive examination of the patent application at the USPTO, and after administrative processes are completed and fees are paid, is expected to result in the issuance of a U.S. patent with a term extending to December 2037. If the FDA approves the use of voclosporin for LN and the label for such use follows the dosing protocol under the Notice of Allowance, the issuance of this patent will expand the scope of intellectual property protection for voclosporin, which already includes robust manufacturing, formulation, synthesis and composition of matter patents.

We have also filed for protection of this subject matter under the PCT and have the option of applying for similar protection in the member countries thereof. This may lead to the granting of corresponding claims in the treaty countries which include all the major global pharmaceutical markets.

DES

On January 22, 2019 we released results for our exploratory Phase 2a head-to-head study evaluating the efficacy, safety and tolerability of VOS versus Restasis® (cyclosporine ophthalmic emulsion) 0.05% for the treatment of DES. The study was initiated in July of 2018 and full enrollment was achieved in the fourth quarter of 2018. We believe CNI's are a mainstay of treatment for DES. The goal of this program is to develop a best-in class treatment option.

In this exploratory Phase 2a study:

- VOS showed statistical superiority to Restasis® on FDA-accepted objective signs of DES.
- 42.9% of VOS subjects vs 18.4% of Restasis® subjects (p=.0055) demonstrated ≥ 10 mm improvement in Schirmer Tear Test ("**STT**") at Week 4.
- Primary endpoint of drop discomfort at 1-minute on Day 1 showed no statistical difference between VOS and Restasis®, as both exhibited low drop discomfort scores, and both drugs were well-tolerated.

On the key pre-specified secondary endpoints of STT (an objective measure of tear production), and Fluorescein Corneal Staining (" FCS") (an objective measure of structural damage to the cornea), which are FDA-accepted efficacy endpoints, VOS showed rapid and statistically significant improvements over Restasis® at Week 4 (STT: p=.0051; FCS: p=.0003).

This 100-patient, double-masked, head-to-head study was designed to evaluate the efficacy, safety and tolerability of VOS versus Restasis® in subjects with DES. Both arms of the study received either VOS or Restasis® (1:1) administered twice daily, in both eyes, for 28 days. Key pre-specified secondary endpoints, which are FDA-accepted endpoints, include STT, FCS, and assessments of dry eye symptoms. Improvements in STT and FCS are considered by regulators to be two of the most clinically meaningful measures of efficacy in this disease.

4-Week Pre-Specified Efficacy Endpoints (Signs)*	VOS	Restasis®	<i>p-value vs. Restasis®</i>
Schirmer Tear Test (STT) <i>(mm LS mean increase from baseline)</i>	8.6	3.3	.0051
% of subjects showing \geq 10mm improvement in STT <i>(basis of FDA approval for other CNIs and an improvement is considered to be clinically significant)</i>	42.9%	18.4%	.0055
Fluorescein Corneal Staining (FCS) <i>(reduction in staining is clinically significant)</i>	-2.2	-0.2	.0003

*worst eye

Both treatment arms also demonstrated substantial and statistically significant improvements on the Symptom Assessment in Dry Eye score from baseline to Week 4.

No serious adverse events (SAE) were reported in the study, and there were no unexpected safety signals. All adverse events (AEs) were mild to moderate and the majority of patients had no AEs. There were five more patients with mild to moderate AEs in the VOS vs Restasis arm which were typical of complaints from DES patients.

Based on this data, we plan to aggressively advance VOS for the treatment of DES. Our pursuit of further development of VOS provides the Company with an enhanced pipeline that further capitalizes on the differentiating features of voclosporin and positions us for substantial growth and measured diversification.

VOS had previously shown evidence of efficacy in our partnered canine studies and in a small human Phase 1 study (n=35), supporting its development for the treatment of DES. Completed preclinical and human Phase 1b studies using our nanomicellar VOS formulation have shown encouraging results in terms of delivery of active drug to the target tissues of the eye. The nanomicellar formulation enables high concentrations of voclosporin to be incorporated into a preservative-free solution for local delivery to the ocular surface. This has been shown to potentially improve efficacy, dosing frequency and tolerability versus the current treatments for DES. We therefore believe VOS has a differentiated product profile with long patent life that has the potential to compete in the multi-billion-dollar human prescription dry eye market.

Animal safety toxicology studies were previously completed in rabbit and dog models, and additional animal safety toxicology studies are either being currently conducted or in the planning stage for 2019.

ATM Offering

On November 30, 2018 we entered into an open market sale agreement with Jefferies LLC pursuant to which Aurinia would be able to, from time to time, sell, through at-the-market ("ATM") offerings, Common Shares that would have an aggregate offering price of up to \$30 million. Aurinia 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 supplemented Aurinia's short form base shelf prospectus dated March 26, 2018, and Aurinia's shelf registration statement on Form F-10 dated March 26, 2018, declared effective on March 29, 2018.

Subsequent to year-end, we sold 4.61 million Common Shares and received gross proceeds of \$30 million at a weighted average price of \$6.55 pursuant this agreement. We incurred share issue costs of \$1.17 million including a 3% commission of \$900,000 and professional and filing fees of \$270,000 directly related to the ATM offering. Sales in the ATM offering were only conducted in the United States through NASDAQ at market prices.

CLINICAL AND CORPORATE DEVELOPMENTS IN 2018

AURORA Phase 3 Clinical Trial in LN

We achieved a significant milestone on September 25, 2018 with the completion of enrollment for our AURORA Phase 3 clinical trial. The target enrollment of 324 patients was surpassed due to high patient demand with 358 LN patients randomized in sites across 27 countries. AURORA is a 56-week trial (52-week primary endpoint and a four-week follow-up period). Therefore, we expect to have top-line data for this trial in late 2019.

We believe the totality of data from both the AURORA and AURA clinical trials can potentially serve as the basis for an NDA submission with the FDA following a successful completion of the AURORA clinical trial. Under voclosporin's fast-track designation we intend to utilize a rolling NDA process which will allow us to begin the submission process following a positive pre-NDA meeting with the FDA, which we anticipate will occur in the first quarter of 2020. To that end we are actively preparing the non-clinical and chemistry, manufacturing and controls modules required for the NDA submission. Our current plan is to complete the NDA, including the clinical module, in the second quarter of 2020.

The AURORA clinical trial is a global double-blind, placebo-controlled study, (designed with target enrollment of 324 patients) to evaluate whether voclosporin added to background therapy of CellCept®/MMF can increase overall renal response rates in the presence of low dose steroids.

Patients were randomized 1:1 to either of: (i) 23.7 mg voclosporin BID and MMF, or (ii) MMF and placebo, with both arms receiving a rapid oral corticosteroid taper. As in the AURA clinical trial, the study population in AURORA is comprised of patients with biopsy proven active LN who will be evaluated on the primary efficacy endpoint of complete remission, or renal response, at 52 weeks, a composite which includes:

- urine protein-creatinine ratio of ≤ 0.5 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 44-52) and;
- no administration of rescue medications.

Patients completing the AURORA trial have the option to roll over into a 104-week blinded extension trial (the "AURORA 2 extension trial"). During the second quarter ended June 30, 2018, the first patients commenced rolling over into the AURORA 2 extension trial. Enrollment in this study continues to increase as additional patients complete AURORA. The data from the AURORA 2 extension trial will allow us to assess the long-term benefit/risk of voclosporin in LN patients, however, this study is not a requirement for potential regulatory approval for voclosporin. Data from the AURORA 2 extension trial assessing long-term outcomes in LN patients should be valuable in a post-marketing setting and for future interactions with various regulatory authorities.

In order to enhance and complete the clinical dossier, we commenced a confirmatory drug-drug interaction study (a "DDI study") between voclosporin and MMF in the second half of 2018. Legacy CNIs, such as cyclosporin A, impact MMF concentrations, and our goal with this short study is to confirm the insignificant impact of voclosporin upon MMF concentrations that were previously seen in a renal transplant study. We are conducting the study with SLE patients and are currently in the process of enrolling patients with the study expected to be completed in 2019. In this study, patients will be monitored for a period of two weeks. We believe the results of this study will add to our knowledge of voclosporin in a multi-targeted therapeutic approach and should have no impact on our submission time-line or the potential approval of voclosporin.

We also plan to evaluate voclosporin in pediatric patients after a potential FDA approval of an indication for adults with LN.

New Voclosporin Indication - FSGS

Similar to LN, integrity of the podocyte is a key feature of disease progression in FSGS. The disease has straightforward disease outcomes where an early clinical response correlates with long-term outcomes, measured by proteinuria. Based on our clinical data in LN which demonstrated that voclosporin decreased proteinuria, we believe voclosporin has the potential to benefit patients with FSGS. Our clinical data in LN demonstrated that voclosporin decreased proteinuria. Furthermore, voclosporin appears to demonstrate a more predictable pharmacology and an improved lipid and metabolic profile over legacy calcineurin inhibitors, which have shown efficacy in treating autoimmune disorders similar to those we are targeting.

We submitted our IND to the FDA in the first quarter of 2018. We received agreement from the FDA with regards to the guidance we provided on this study and the IND is now active. Our Phase 2 proof-of-concept study in FSGS which is an open-label study of approximately 20 treatment-naive patients was initiated in June 2018. As we are essentially enrolling newly diagnosed patients and this is a rare disease, enrollment is slower than originally expected. We believe enrollment could take up to additional twelve months from the current date, however, we plan to have interim data readouts throughout the course of the study, once sufficient patients are enrolled. As we have been focused on LN, expanding our scope to include other proteinuric renal diseases is synergistic with our current strategy and long-term vision.

Corporate Development

We announced on November 8, 2018 that Richard M. Glickman, Aurinia's Chairman and Chief Executive Officer, intends to retire from his position once a suitable replacement is identified and appointed. The board of directors (the "Board") has retained an executive search firm and has initiated a search for his successor. This process is ongoing. Under his direction, the Company has delivered on its key milestones and

evolved into a patient-centric, late-stage clinical company with investigational drugs addressing multiple indications across the global immunology market.

RESULTS OF OPERATIONS

For the year ended December 31, 2018, we reported a consolidated net loss of \$64.12 million or \$0.76 loss per common share, as compared to a consolidated net loss of \$70.79 million or \$0.92 loss per common share for the year ended December 31, 2017.

We recorded an increase in the estimated fair value of derivative warrant liabilities of \$9.95 million for the year ended December 31, 2018 compared to \$23.92 million for the previous year. These increases, which are non-cash in nature, increased the consolidated net loss for each of the years respectively.

After adjusting for the non-cash impact of the revaluation of the warrant liabilities, the net loss before change in estimated fair value of derivative warrant liabilities for the year ended December 31, 2018 was \$54.09 million compared to \$46.87 million for the year ended December 31, 2017. The higher net loss before the increase in estimated fair value of derivative warrant liabilities in 2018 was primarily due to an increase in research and development ("**R&D**") expenses for the year ended December 31, 2018.

Licensing revenue, contract revenue and deferred revenue

Licensing Revenue

We recorded licensing revenue of \$118,000 (2017 - \$118,000) related to the upfront license payment of \$1.5 million received in 2010 pursuant to the 3SBio Inc. license agreement. Under the agreement, the primary substantive obligations of the Company are to grant the license and transfer intellectual knowledge to 3SBio. Under the agreement, we are also required to maintain the patent portfolio in China, Taiwan and Hong Kong, and to provide further support and cooperation to 3SBio over the life of the agreement, which coincides with the life of the patents. Any additional assistance which may be provided to 3SBio will be performed on a full cost recovery basis. The deferred licensing fee revenue is recognized on a straight-line basis we satisfy the performance obligations over the life of the patents and the benefit to the customer transfers ratably throughout the patent live, which expires in 2022. As at December 31, 2018, \$442,000 (2017 - \$560,000) of deferred revenue remains relating to this payment. We will provide commercial supply to 3SBio on a cost-plus basis and will receive ongoing royalties based on sales of voclosporin by 3SBio.

On April 17, 2017, we entered into an agreement with Merck Animal Health ("**MAH**") whereby the Company granted them worldwide rights to develop and commercialize its patented nanomicellar voclosporin ophthalmic solution ("**VOS**") for the treatment of Dry Eye Syndrome in dogs. Under the terms of the agreement, we received a Technology Access fee of \$300,000. This agreement provided MAH with a right to use intellectual property. MAH was able to direct the use of and obtain substantially all of the benefits from the license at the time that control of the rights were transferred and therefore, the \$300,000 Technology Access fee was recognized as revenue in the year ended December 31, 2017. We are eligible to receive further payments based on certain development and sales milestones and receive royalties based on global product sales.

Contract Revenue

We earned a contract milestone of \$345,000 (CA\$450,000) pursuant to a purchase and sale agreement dated February 14, 2014 between Ciclofilin Pharmaceuticals Corp. (now Contravir Pharmaceuticals, Inc.) and Aurinia Pharmaceuticals Inc. under which the Company sold the Non-Immunosuppressive Cyclosporine Analogue Molecules (NICAMs) early stage research and development asset to Ciclofilin. We are eligible to receive further payments based on certain development and sales milestones and to receive royalties based on global product sales. We have no obligations under this agreement

Research and Development expenses

R&D expenses increased to \$41.38 million for the year ended December 31, 2018 compared to \$33.93 million for the year ended December 31, 2017.

The increase in R&D expenses in 2018 primarily reflected costs incurred for the AURORA 2 extension trial, the DDI study and the DES and FSGS Phase 2 studies, which were newly enrolled studies in 2018.

The most significant portion of R&D expenses related to the AURORA trial. AURORA trial costs were \$23.56 million for the year ended December 31, 2018 compared to \$24.15 million for the year ended December 31, 2017.

Clinical Research Organization ("**CRO**") and other third party clinical trial expenses were \$27.92 million for the year ended December 31, 2018 compared to \$21.63 million for the year ended December 31, 2017. The increased costs primarily reflected higher CRO costs, including service fees and pass-through costs related to the AURORA trial, the AURORA 2 extension trial, the DES study, the DDI study and commencement costs for the Phase 2 FSGS.

We incurred drug supply and distribution costs of \$4.89 million for the year ended December 31, 2018 compared to \$7.12 million for 2017. Costs incurred in 2018 were primarily for encapsulating, packaging and distribution of the drug supply for the AURORA trial and manufacturing and packaging drug supply for VOS, whereas the drug costs for 2017 also included an expense of \$3.17 million to manufacture voclosporin drug product.

Salaries, annual incentive pay accruals and employee benefits (excluding non-cash stock compensation expense noted below) increased to \$4.26 million for the year ended December 31, 2018 compared to \$3.07 million for the same period in 2017. The increase reflected the hiring of fifteen additional R&D employees since January 1, 2017, annual salary increases, and a higher incentive pay accrual resulting from the additional personnel numbers.

We also recorded non-cash stock compensation expense of \$2.70 million for the year ended December 31, 2018 compared to \$993,000 for 2017. See stock-based compensation expense section below for more details.

Other expenses, which included items such as travel, clinical trial insurance, patent annuity and legal fees, phone and publications increased to \$1.61 million for the year ended December 31, 2018 compared to \$1.11 million in 2017. The increase reflected higher expenses, particularly for travel, related to the clinical trial programs conducted in 2018.

Corporate, administration and business development expenses

Corporate, administration and business development expenses increased to \$13.67 million for the year ended December 31, 2018 compared to \$12.10 million for 2017. The increase reflected higher activity levels in 2018.

Corporate, administration and business development expenses included non-cash stock-based compensation expense of \$4.16 million for the year ended December 31, 2018 compared to \$3.25 million for 2017. See the section on stock-based compensation expense below for more details.

Salaries, director fees, payroll accruals and employee benefits (excluding stock compensation expense noted above) were \$4.60 million for the year ended December 31, 2018 compared to \$4.24 million in 2017. The increases reflected payroll costs in 2018 for seven additional employees hired since January 1, 2017, higher incentive pay accruals recorded in 2018, annual salary increases for employees and higher director fees.

Professional and consulting fee expense was consistent at \$2.31 million for the year ended December 31, 2018 compared to \$2.13 million in 2017.

Rent, insurance, information technology, communications and other public company operating costs increased to \$1.70 million for the year ended December 31, 2018 compared to \$1.33 million for the year ended December 31, 2017. The increased costs reflected overall higher activity levels, higher staff numbers, and higher director and officer insurance costs commensurate with conducting a Phase 3 clinical trial.

Travel, tradeshow and sponsorships expense decreased slightly to \$900,000 for the year ended December 31, 2018 compared to \$1.16 million for the year ended December 31, 2017.

Stock-based compensation expense

For stock option plan information and outstanding stock option details refer to note 12(c) of the audited consolidated financial statements for the year ended December 31, 2018.

We granted 3.0 million stock options for the year ended December 31, 2018 at a weighted average exercise price of \$5.29 compared to 2.73 million stock options at a weighted average exercise price of \$4.12 for the year ended December 31, 2017.

Application of the fair value method resulted in charges to stock-based compensation expense of \$6.86 million for the year ended December 31, 2018 (2017 – \$4.24 million) with corresponding credits to contributed surplus. For the year ended December 31, 2018, stock compensation expense has been allocated to R&D expense in the amount of \$2.70 million (2017 – \$993,000) and corporate, administration and business development expense in the amount of \$4.16 million (2017 – \$3.25 million).

The increase in stock-based compensation expense in 2018 compared to 2017 related to the following: an increase in the number of options granted in 2018; an increase in the weighted average of the fair value of the stock options granted to \$2.89 per common share in 2018 from \$2.79 in 2017 due to increases in 2018, in our share price and in the interest rate used in calculating the fair value; and a change in the vesting periods for employee options to 36 months in 2017 and 2018 compared to 2016, where the majority of granted options vested over 12 months.

Amortization of acquired intellectual property and other intangible assets

Amortization of acquired intellectual property and other intangible assets increased slightly to \$1.55 million for the year ended December 31, 2018 compared to \$1.43 million recorded in 2017.

Other expense (income)

We recorded other income of \$2.07 million for the year ended December 31, 2018 compared to other income of \$196,000 for the year ended December 31, 2017.

Other expense (income) included the following items:

Finance income of \$2.23 million for the year ended December 31, 2018 consisting of interest income of \$2.23 million compared to finance income of \$702,000 for the year ended December 31, 2017 consisting of interest income of \$1.04 million offset by a loss on sale of short term investments of \$338,000. The increase in interest income primarily reflected increases in United States interest rates in 2018 compared to 2017.

Revaluation expense adjustments on long term contingent consideration to ILJIN SNT Co., Ltd. ("**ILJIN**") of \$236,000 for the year ended December 31, 2018 compared to \$502,000 for 2017. The contingent consideration is more fully discussed in note 10 to the audited consolidated financial statements for the year ended December 31, 2018.

Foreign exchange gain of \$67,000 for the year ended December 31, 2018 compared to a foreign exchange loss of \$4,000 in 2017.

Change in estimated fair value of derivative warrant liabilities

We recorded a non-cash increase in estimated fair value of derivative warrant liabilities of \$9.95 million for the year ended December 31, 2018 compared to a non-cash increase of \$23.92 million for 2017. These revaluations fluctuate based primarily on the market price of our Common Shares. Derivative warrant liabilities are more fully discussed in the section "Critical estimates in applying the Company's accounting policies" and note 4 (Critical accounting estimates and judgements) to the audited consolidated financial statements for the year ended December 31, 2018.

In accordance with IFRS, a contract to issue a variable number of shares fails to meet the definition of equity and must instead be classified as a derivative liability and measured at fair value with changes in fair value recognized in the consolidated statements of operations and comprehensive loss at each period-end. To clarify, while we will settle these warrants only in shares in the future, accounting rules require that we show a liability because of the potential variability in the number of shares which may be issued if the cashless exercise option is used by the holder of the warrants under the specific situations discussed below.

The derivative warrant liabilities will ultimately be eliminated on the exercise or forfeiture of the warrants and will not result in any cash outlay by Company.

Derivative warrant liability related to December 31, 2016 Bought Deal public offering

On December 28, 2016, we completed a \$28.75 million bought deal public offering (the "**December Offering**"). Under the terms of the December Offering, we issued 12.78 million units at a subscription price per unit of \$2.25, each unit consisting of one common share and one-half (0.50) of a common share purchase warrant (a "**Warrant**"), exercisable for a period of five years from the date of issuance at an exercise price of \$3.00. Therefore, we issued 6.39 million Warrants. The holders of the Warrants issued pursuant to the December Offering may elect, if we do not have an effective registration statement registering the Common Shares underlying the Warrants, or the prospectus contained therein is not available for the issuance of the Common Shares underlying the Warrants to the holder, in lieu of exercising the Warrants for cash, a cashless exercise option to receive Common Shares equal to the fair value of the Warrants. This calculation is based on the number of Warrants to be exercised multiplied by the weighted average market price less the exercise price with the difference divided by the weighted average market price. If a Warrant holder exercises this option, there will be variability in the number of shares issued per Warrant. There can be no certainty that we will have an effective registration statement in place over the entire life of the Warrants and therefore, under IFRS we are required to record these Warrants as derivative warrant liabilities.

There were no warrant exercises in 2018.

At each of December 31, 2018 and December 31, 2017, there were 3.52 million of the December 28, 2016 Warrants outstanding at an exercise price of \$3.00.

Derivative warrant liability related to February 14, 2014 private placement offering

On February 14, 2014, we completed a \$52 million private placement (the "**Private Placement**"). Under the terms of the Private Placement, we issued 18.92 million units at a subscription price per unit of \$2.7485, each unit consisting of one common share and one-quarter (0.25) of a common share purchase warrant (the "**2014 Warrants**"), exercisable for a period of five years from the date of issuance at an exercise price of \$3.2204. The holders of the 2014 Warrants issued pursuant to the Private Placement may elect, in lieu of exercising the 2014 Warrants for cash, a cashless exercise option to receive Common Shares equal to the fair value of the 2014 Warrants based on the number of 2014 Warrants to be exercised multiplied by a five-day weighted average market price less the exercise price with the difference divided by the weighted average market price. If a 2014 Warrant holder exercises this option, there will be variability in the number of shares issued per Warrant.

There were no warrant exercises in 2018.

At each of December 31, 2018 and December 31, 2017, there were 1.74 million of the 2014 Warrants outstanding.

Subsequent to December 31, 2018, the 2014 Warrants outstanding at December 31, 2018 were exercised. Certain holders of the 2014 Warrants elected the cashless exercise option and we issued 687,000 Common Shares on the cashless exercise of 1.27 million 2014 Warrants. The remaining 464,000 warrants were exercised for cash, at a price of \$3.2204, and as a result we received cash proceeds of \$1.49 million upon the issuance of 464,000 Common Shares. Pursuant to the exercise of the 2014 Warrants, we transferred \$5.92 million from derivative warrant liability to equity (Common Shares) and recorded an adjustment of \$352,000 through the statement of operations and comprehensive loss related to the change in estimated fair value of derivative warrant liabilities in the first quarter ended March 31, 2019. As a result, the derivative warrant liability of \$6.27 million at December 31, 2018 related to the Private Placement has been extinguished upon the exercise of the 2014 Warrants.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2018, we had cash, cash equivalents, and short term investments on hand of \$125.86 million compared to \$173.46 million at December 31, 2017.

Subsequent to December 31, 2018 we received gross proceeds of \$30 million from the ATM facility (as discussed in the *Recent Developments* section), proceeds of \$1.49 million from the cash exercise of 464,000 2014 Warrants and proceeds of \$1.30 million from the exercise of 377,000 stock options.

We are in the development stage and are devoting the majority of our operational efforts and financial resources towards the clinical development and potential commercialization of our late stage drug, voclosporin, which includes the completion of the AURORA trial. For the year ended December 31, 2018, we reported a loss of \$64.12 million (December 31, 2017 - \$70.79 million) and a cash outflow from operating activities of \$51.61 million (December 31, 2017 - \$41.17 million). As at December 31, 2018, we had an accumulated deficit of \$415.96 million (December 31, 2017 - \$351.84 million).

We believe that our cash position is sufficient to fund our existing LN program, our ongoing Phase 2 study in FSGS, commence further studies for DES, and supporting operations until mid-2020.

More specifically, our cash position provides funding to finish the AURORA trial with estimated costs to complete of approximately \$22 million and complete the regulatory NDA submission with the FDA in early 2020 based on our current expected time-lines. We are also conducting the AURORA 2 extension trial which will be completed towards the end of 2021 with estimated costs still be incurred of approximately \$30 million. In addition, our cash will allow us to conduct our current FSGS study, complete the current DDI study, commence further studies for DES while also funding our supporting corporate, administration and business development activities and working capital needs during this period.

Sources and Uses of Cash:

	Year ended December 31, 2018 (in thousands)	Year ended December 31, 2017 (in thousands)	Increase (Decrease) (in thousands)
	\$	\$	\$
Cash used in operating activities	(51,610)	(41,169)	(10,441)
Cash used in investing activities	(66)	(8,003)	7,937
Cash generated from financing activities	4,014	175,152	(171,138)
Net increase (decrease) in cash and cash equivalents	(47,662)	125,980	(173,642)

Net cash used in operating activities in fiscal 2018 was \$51.61 million, an increase of \$10.44 million, from cash used in operating activities of \$41.17 million in 2017. Cash used in operating activities in 2018 and 2017 was composed of net loss, add-backs or adjustments not involving cash, such as stock-based compensation and change in estimated fair value of derivative warrant liabilities and net change in other operating assets and liabilities including prepaid expenses, deposits and other and accounts payable and accrued liabilities. Prepaid expenses, deposits and other increased to \$6.78 million for the year ended December 31, 2018 from \$1.68 million for the year ended December 31, 2017. This increase primarily reflected a deposit for the manufacture of API in the amount of \$3.29 million and increase of \$1.09 million in advances and deposits with our CROs that are conducting our clinical trials and studies. Cash used in operating activities in 2017 included \$2.15 million paid to ILJIN related to the contingent consideration liability.

Cash used in investing activities for the year ended December 31, 2018 was \$66,000 compared to cash used in investing activities of \$8.00 million for the year ended December 31, 2017. The change in these amounts primarily related to movements within our short term investment portfolio which was comprised of bonds and treasury notes.

Cash generated from financing activities for the year ended December 31, 2018 was \$4.01 million compared to cash generated by financing activities of \$175.15 million for the year ended December 31, 2017. Cash generated from financing activities for the year ended December 31, 2017 included net proceeds of \$162.32 million from our March 20, 2017 financing.

We received \$3.07 million from the exercise of warrants and \$943,000 from the exercise of stock options for the year ended December 31, 2018 compared to \$8.92 million for warrants and \$3.91 million for stock options in 2017.

Use of Financing Proceeds

December Offering

On December 28, 2016, we completed the December Offering for net proceeds of \$26.14 million, the net proceeds of which are to be used to advance the clinical and non-clinical development of our lead drug, voclosporin, as a therapy for LN, and for working capital and corporate purposes.

March Offering

On March 20, 2017, we completed an underwritten public offering of 25.64 million Common Shares, which included 3.35 million Common Shares issued pursuant to the full exercise of the underwriters' overallotment option to purchase additional Common Shares, for net proceeds of \$162.32 million (the "March Offering"), which are to be used for R&D activities and for working capital and corporate purposes.

A summary of the anticipated and actual use of net proceeds used to date from the above financings is set out in the table below.

Allocation of net proceeds	Total net proceeds from financings (in thousands)	Net proceeds used to date (in thousands)
	\$	\$
December 28, 2016 Offering:		
Clinical and non-clinical development of voclosporin	21,700	21,700
Working capital and corporate purposes	4,442	4,442
Subtotal:	26,142	26,142
March 20, 2017 Offering:		
R&D activities	123,400	47,044
Working capital and corporate purposes	38,924	6,169
Subtotal:	162,324	53,213
Proceeds from ATM Sales in 2019:	28,829	—
Total:	217,295	79,355

To December 31, 2018, there have been no material variances from how we disclosed we were going to use the proceeds from the above noted offerings and thus, no material impact on its ability to achieve our business objectives and milestones.

CONTRACTUAL OBLIGATIONS

We have the following contractual obligations as at December 31, 2018:

	Total (in thousands)	Less than one year (in thousands)	One to three years (in thousands)	Four to five years (in thousands)	More than five years (in thousands)
	\$	\$	\$	\$	\$
Operating lease obligations ⁽¹⁾	800	208	487	105	—
Purchase obligations ⁽²⁾	18,698	12,568	6,122	8	—
Accounts payable and accrued liabilities	7,071	7,071	—	—	—
Contingent consideration to ILJIN ⁽³⁾	4,028	72	3,956	—	—
Total	30,597	19,919	10,565	113	—

(1) Operating lease obligations are comprised of the future minimum lease payments for our premises.

(2) We have entered into contractual obligations for services and materials required for the AURORA clinical trial, drug supply other R&D projects activities. The purchase obligations presented represent the minimum amount to exit our contractual commitments.

(3) Contingent consideration to ILJIN is described in note 10 to the consolidated audited financial statements for the year ended December 31, 2018.

As at December 31, 2018 we are party to agreements with CROs and a central laboratory and other third party service providers providing services to us for our clinical trials and studies and other research and development activities and for drug supply. Corresponding anticipated expenses over the next twelve months, are estimated to be in the range of \$30-\$35 million.

RELATED PARTY TRANSACTIONS

Related parties

Compensation of Key Management

Compensation awarded to key management was composed of the following:

	(in thousands)	
	2018	2017
	\$	\$
Salaries, short-term employee benefits	2,042	2,961
Bonuses accrued or paid	879	1,300
Severance costs	—	544
Director fees	446	217
Stock-based compensation	4,971	3,560
	<u>8,338</u>	<u>8,582</u>

In 2018, we defined key management as Directors and executive officers whereas in 2017 our key management was defined as all Directors and Officers. This change in definition is a result of our continued growth and the hiring of additional personnel, requiring a narrower focus on the definition of Key Management. In 2017, compensation for Directors and executive officers was \$6,812,000.

Other

Stephen P. Robertson, a partner at Borden Ladner Gervais ("BLG") acts as our corporate secretary. We incurred legal fees in the normal course of business to BLG of \$152,000 for the year ended December 31, 2018 compared to \$255,000 for the year ended December 31, 2017. The amount charged by BLG is based on standard hourly billing rates for the individuals working on our account. We have no ongoing contractual or other commitments as a result of engaging Mr. Robertson to act as our corporate secretary. Mr. Robertson receives no additional compensation for acting as the corporate secretary beyond his standard hourly billing rate.

The outstanding fair value of contingent consideration payable to ILJIN, an affiliated shareholder and related party, is the result of an Arrangement Agreement (the "**ILJIN Agreement**") completed on September 20, 2013 between the Company, Aurinia Pharma Corp. and ILJIN.

Pursuant to the terms of the ILJIN Agreement, \$10 million in contingent consideration would potentially be owed to ILJIN based on the achievement of future pre-defined clinical and marketing milestones. During 2017, we paid ILJIN \$2.15 million of the \$10 million upon the achievement of two specific milestones pursuant to this contingent consideration. As such, at December 31, 2018, there are \$7.85 million of contingent consideration milestones remaining which we may pay out in the future dependent upon the achievement of the specific pre-defined milestones being met.

The contingent consideration payable to ILJIN is more fully discussed in note 10 of the audited consolidated financial statements for the year ended December 31, 2018.

OFF-BALANCE SHEET ARRANGEMENTS

Other than as described in the "Contractual Obligations" and "Contingencies" sections of this MD&A, there are no material undisclosed off-balance sheet arrangements that have or are reasonably likely to have, a current or future effect on our results of operations or financial condition.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

Critical estimates in applying Aurinia's accounting policies

- **Contingent consideration**

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

The fair value estimates at December 31, 2018 were based on a discount rate of 10% (2017 - 10%) and a presumed payment range between 50% and 74% (2017- 50% and 75%). The fair value of this contingent consideration as at December 31, 2018 was estimated to be \$4.03 million (December 31, 2017 - \$3.79 million) and was determined by estimating the probability and timing of achieving the milestones and applying the income approach.

The change in the revaluation amounts in 2018 resulted primarily from the change in the expected timing of milestone payments and the passage of time. The change in probability factors for the milestones and the passage of time resulted in a revaluation of contingent consideration expense of \$236,000 for the year ended December 31, 2018.

This is a Level 3 recurring fair value measurement. If the probability for success were to increase by a factor of 10% for each milestone, this would increase the net present value ("NPV" of the obligation by approximately \$622,000 as at December 31, 2018. If the probability for success were to decrease by a factor of 10% for each milestone, this would decrease the NPV of the obligation by approximately \$620,000 as at December 31, 2018. If the discount rate were to increase to 12%, this would decrease the NPV of the obligation by approximately \$172,000. If the discount rate were to decrease to 8%, this would increase the NPV of the obligation by approximately \$185,000.

Derivative warrant liabilities

Warrants issued pursuant to equity offerings that are potentially exercisable in cash or on a cashless basis resulting in a variable number of shares being issued are considered derivative liabilities and therefore measured at fair value.

We use the Black-Scholes pricing model to estimate fair value at each exercise and period end date. The key assumptions used in the model are the expected future volatility in the price of our shares and the expected life of the warrants. The impact of changes in key assumptions are noted below.

These derivative warrant liabilities are Level 3 recurring fair value measurements.

The key Level 3 inputs used by management to estimate 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 estimated fair value of the obligation by approximately \$3.41 million as at December 31, 2018. If the market price were to decrease by a factor of 10%, this would decrease the estimated fair value of the obligation by approximately \$3.37 million. If the volatility were to increase by 10%, this would increase the estimated fair value of the obligation by approximately \$344,000. If the volatility were to decrease by 10%, this would decrease estimated fair value of the obligation by approximately \$322,000 as at December 31, 2018.

- **Fair value of stock options**

Determining the fair value of stock options on the 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 our reported operating results, liabilities or other components of shareholders' equity. The key assumptions used by management is the stock price volatility.

If the stock price volatility was higher by a factor of 10% on the option grant dates in 2018, this would have increased annual stock compensation expense by approximately \$308,000. If the stock price volatility was lower by a factor of 10% on the grant date, this would have decreased annual stock compensation expense by approximately \$265,000.

We used the Black-Scholes option pricing model to estimate the fair value of the options granted in 2018 and 2017.

We consider historical volatility of our 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 behavior.

Critical judgments in applying Aurinia's accounting policies

- **Revenue recognition**

Our assessments related to the recognition of revenues for arrangements containing multiple elements are based on estimates and assumptions. Judgment is necessary to identify separate performance obligations and to allocate related consideration to each separate performance obligation. Where deferral of license fees is deemed appropriate, subsequent revenue recognition is often determined based on certain assumptions and estimates, our continuing involvement in the arrangement, the benefits expected to be derived by the customer and expected patent lives. The estimate of variable consideration requires significant judgment and an assessment of their potential reversal. We also use judgement in assessing if a license is a right to use or a right to access intellectual property. Factors that are considered include whether the customer reasonably expects (arising from the entity's customary business practices) that the entity will undertake activities that will significantly affect the intellectual property, the rights granted by the license directly expose the customer to any positive or negative effects of the entity's activities and whether those activities transfer a separate good or service to the customer. To the extent that any of the key assumptions or estimates change, future operating results could be affected.

- **Impairment of intangible assets**

We follow the guidance of IAS 36 to determine when impairment indicators exist for its intangible assets. When impairment indicators exist, we are required to make a formal estimate of the recoverable amount of its intangible assets. This determination requires significant judgment. In making this judgment, management evaluates external and internal factors, such as significant adverse changes in the technological, market, economic or legal environment in which we operate as well as the results of our ongoing development programs. Management also considers the carrying amount of our net assets in relation to our market capitalization as a key indicator. In making a judgment as to whether impairment indicators exist as at December 31, 2018, management concluded there were none.

- **Derivative warrant liabilities**

Management has determined that derivative warrant liabilities are classified as long term as these derivative warrant liabilities will ultimately be settled for Common Shares and therefore the classification is not relevant.

RECENT CHANGES IN ACCOUNTING STANDARDS

New accounting standards adopted in the year

We adopted three new and revised standards, effective January 1, 2018. The information below explains the impact of the adoption of IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 2 Share based payment on our financial statements that have been applied from January 1, 2018, where they are different to those applied in the prior period.

- **IFRS 9 Financial Instruments**

The adoption of IFRS 9 Financial Instruments using the modified retrospective approach on January 1, 2018 (the date of initial application of IFRS 9) results in a change in accounting policy. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The reclassification of financial assets have therefore been recognized in the opening balance sheet on January 1, 2018. The new standard introduces expanded disclosure requirements and changes in presentation, these have minimally impacted the nature and extent of the Company's disclosures. IFRS 9 is a three-part standard to replace IAS 39 Financial Instruments: Recognition and Measurement, addressing new requirements for (i) classification and measurement, (ii) impairment, and (iii) hedge accounting.

Classification and measurement

On January 1, 2018 we assessed which business models apply to the financial assets held by the Company and have classified our financial instruments into the appropriate IFRS 9 categories. There was no impact to the financial liabilities held by the Company.

Cash and cash equivalents, short term investments and accounts receivable are recorded initially at fair value and subsequently at amortized cost using the effective interest method less any provisions for impairment.

The impact to short term investments due to the classification of these assets in accordance with IFRS 9 is outlined below:

	Short term investments	Accumulated other comprehensive loss
Balance at December 31, 2017 – IAS 39	7,833	883
Reclassify investments from available-for-sale to amortized cost	78	(78)
Balance at January 1, 2018 – IFRS 9	7,911	805

The investments held at December 31, 2017 were reclassified from available for sale to amortized cost. At January 1, 2018, the date of initial application, our business model is to hold investments for collection of contractual cash flows, and the

cash flows represent solely payments of principal and interest on the principal amount. The fair value loss of \$78,000 would have otherwise been recognized in other comprehensive income (OCI) had the short term investments not been reclassified to amortized cost.

There was no impact to cash and cash equivalents and accounts receivable resulting from the adoption of IFRS 9.

Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. We have nominal amount of accounts receivable, therefore, the change in impairment methodology due to the new standard does not have a significant impact on the financial statements. Our cash and cash equivalents and short term investments are also subject to the impairment requirements of IFRS 9, the identified impairment loss is not material.

Hedge Accounting

We had not entered into any hedges as at December 31, 2017 and has not undertaken hedging activities in the year ended December 31, 2018 therefore the hedge accounting section standard is not applicable to the Company at this time and does not have an impact on the financial statements.

- **IFRS 15 Revenues from Contracts with Customers**

The adoption of IFRS 15 Revenue from Contracts with customers using the modified retrospective and the completed contract practical expedient approaches on January 1, 2018 (the date of initial application of IFRS 15) does result in a change in accounting policy. However, the adoption did not have a material impact on the financial statements, and as a result the 2017 comparatives are not required to be restated. The new standard replaces IAS 18, Revenue, IAS 11 Construction Contracts, and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria.

The modified retrospective approach results in the cumulative effect, if any, of adoption being recognized at the date of initial application. We currently have no product sales or significant sources of revenue, therefore there is no effect upon initial application.

- **IFRS 2 Share based payments**

In June 2016, the IASB issued final amendments to IFRS 2, clarifying how to account for certain types of share based payment transactions. These amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effect of vesting and non-vesting conditions on the measurement of cash-settled share based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classifications of the transaction from cash-settled to equity-settled. We have evaluated the impact of these amendments and as a result have determined that there is no required change to our accounting policy related to Share based payments, and therefore no changes to the consolidated financial statements were required.

New accounting standard not yet adopted

The following standard is effective for annual periods beginning on or after January 1, 2019 and has not been applied in preparing these annual consolidated financial statements.

- **IFRS 16 Leases**

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

At the date of adoption of IFRS 16, we will recognize a lease liability and right-of-use asset. The lease liability will be measured at the present value of the future lease payments during the lease term which is estimated to be an average of three years at the date of adoption, discounted using incremental borrowing rates which, in most instances, will be an average interest rate on borrowings for companies comparable to us. The right-of-use asset will be initially calculated at an amount equal to the initial value of the lease liability adjusted as required under the standard for specific items. The right-of-use asset is expected to be amortized using the straight-line method from the date of adoption to the end of the lease term. Interest on the lease liability will be calculated using the effective interest method with rent payments reducing the liability. As a

result of these changes, there will be a increase in 2019 to interest expense and amortization, and a reduction in Corporate, administration and business development expenses (note 13) on the Statement of Operations and Comprehensive Loss due to the decrease in rent expense. To date, we have identified two facility lease agreements that will have an impact on the consolidated financial statements. As at the reporting date, the non-cancelable commitment related to these two leases is \$800,000 (note 20). We are assessing and quantifying the potential financial impact that the adoption will have on our consolidated financial statements. We are also currently reviewing Aurinia's non-facility related contracts and agreements to determine whether any of the agreements will impact our consolidated financial statements. We will be ready to report under IFRS 16 in its first quarter financial statements in 2019.

RISKS AND UNCERTAINTIES

We have invested a significant portion of our time and financial resources in the development of voclosporin. We anticipate that our ability to generate revenues and meet expectations will depend primarily on the successful development, regulatory approval and commercialization of voclosporin.

The successful development and commercialization of voclosporin will depend on several factors, including the following:

- Successful and timely completion of our clinical program in LN, including the AURORA trial which is anticipated to be completed in the fourth quarter of 2019;
- receipt of marketing approvals from the FDA and other regulatory authorities with a commercially viable label;
- securing and maintaining sufficient expertise and resources to help in the continuing development and eventual commercialization of voclosporin;
- maintaining suitable manufacturing and supply arrangements to ensure commercial quantities of the product through validated processes;
- acceptance and adoption of the product by the medical community and third-party payers;
- and
- our ability to raise future financial resources when required. Future additional sources of capital could include payments from equity financings, debt financings, potential new licensing partners, and/or the monetization of our intangible assets.

A more detailed list of the risks and uncertainties affecting us can be found in our AIF which is filed on SEDAR and EDGAR.

Capital management

Our objective in managing capital, consisting of shareholders' equity, with cash, cash equivalents and short term investments being its primary components, is to ensure sufficient liquidity to fund R&D activities, corporate, administration and business development expenses and working capital requirements. This objective has remained the same from that of the previous year.

Over the past two years, we have raised capital via a public offering, the exercise of warrants and stock options and draw-downs subsequent to year end under our November 30, 2018 ATM facility, as our primary sources of liquidity, as discussed in note 12 - Share Capital.

As our policy is to retain cash to keep funds available to finance the activities required to advance our product development, we do not currently pay dividends.

We are not subject to any capital requirements imposed by any regulators or by any other external source.

Financial instruments and Risks

We are exposed to credit risks and market risks related to changes in interest rates and foreign currency exchange, each of which could affect the value of our current assets and liabilities.

We invest our cash reserves in U.S. dollar denominated, fixed rate, highly liquid and highly rated financial instruments such as treasury notes, banker acceptances, bank bonds, and term deposits. We do 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 our investment portfolio, as the majority of our funds were held in cash or cash equivalents (\$117.97 million at December 31, 2018). We also held \$7.89 million in short term investments. The short term investments are comprised of two held to maturity interest bearing securities, which each mature in 2019.

Financial risk factors

Our activities can expose us 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. Our overall risk management program seeks to minimize adverse effects on our financial performance.

Liquidity risk

Liquidity risk is the risk we will not be able to meet our financial obligations as they fall due. We manage our liquidity risk through the management of our capital structure and financial leverage, as discussed above in "Capital Management". We also manage liquidity risk by continuously monitoring actual and projected cash flows. The Board reviews and approves our budget, as well as any material transactions out of the ordinary

course of business. We invest our cash equivalents in U.S. denominated term deposits with 30 to 90-day maturities, and U.S. denominated short term investments consisting of bonds and treasury notes issued by banks and/or United States or Canadian governments with maturities not exceeding two years to ensure our liquidity needs are met.

All of our financial liabilities are due within one year except for the contingent consideration, as described in note 10 to the audited consolidated financial statements for the year ended December 31, 2018 and the derivative warrant liabilities, as described in note 11 to the audited consolidated financial statements for the year ended December 31, 2018.

Interest rate risk

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

Financial assets and financial liabilities with variable interest rates expose us to cash flow interest rate risk. Our cash and cash equivalents are comprised of highly liquid investments that earn interest at market rates and the short term investments are comprised of bank or government bonds with a maturity of two years or less. Accounts receivable, accounts payable and accrued liabilities bear no interest.

We manage our interest rate risk by maintaining the liquidity necessary to conduct operations on a day-to-day basis. Our exposure to interest rate risk as at December 31, 2018 was considered minimal as the majority of our financial resources were held as cash and cash equivalents.

Credit risk

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash, cash equivalents and short term investments which were held at three major Canadian banks. We regularly monitor the credit risk exposure and take steps to mitigate the likelihood of these exposures resulting in expected loss.

Foreign currency risk

We are exposed to financial risk related to the fluctuation of foreign currency exchange rates. Foreign currency risk is the risk variations in exchange rates between the US dollars and foreign currencies, primarily with the Canadian dollar, will affect our operating and financial results.

The following table presents our exposure to the Canadian dollar:

	December 31, 2018 \$	(in thousands) December 31, 2017 \$
Cash and cash equivalents	364	125
Accounts receivable	24	28
Accounts payable and accrued liabilities	(1,677)	(1,657)
Net exposure	<u>(1,289)</u>	<u>(1,504)</u>
		Reporting date rate
	December 31, 2018 \$	December 31, 2017 \$
CAS – US\$	<u>0.733</u>	<u>0.797</u>

Based on our foreign currency exposure noted above, varying the foreign exchange rates to reflect a ten percent strengthening of the CAS would have increased the net loss by \$128,000 assuming all other variables remained constant. An assumed 10% weakening of the CAS would have had an equal but opposite effect to the amounts shown above, on the basis all other variables remain constant.

Intellectual Property

Patents and other proprietary rights are essential to our business. Our policy has been to file patent applications to protect technology, inventions, and improvements to our inventions that are considered important to the development of our business. We are pursuing certain avenues to expand the voclosporin intellectual property portfolio, including a use patent strategy (which involves potential development of use patents driven by AURA Phase 2b data) and a potential manufacturing patent and trade secret strategy.

The Company has an extensive granted patent portfolio related to cyclosporine analogs, including granted United States patents, covering voclosporin composition of matter, methods of use, formulations and synthesis. The corresponding Canadian, South African and Israeli patents are owned by Paladin Labs Inc. We anticipate that upon regulatory approval, patent protection for voclosporin will be extended in the United States (Patent Term Extension) and certain other major markets, including Europe and Japan, until at least October 2027 under the Hatch-Waxman Act in the United States and comparable patent extension laws in other countries (including the Supplementary Protection Certificate program in Europe). Opportunities may also be available to add an additional six months of exclusivity related to pediatric studies which are currently

in the planning process. In addition to patent rights, we also expect to receive "new chemical entity" exclusivity for voclosporin in certain countries, which provides from five years in the United States and up to ten years in Europe.

Further, pursuant to a Notice of Allowance from the USPTO for claims directed at our novel voclosporin dosing protocol for LN as more fully discussed in the Recent Developments section of this MD&A, after administrative processes are completed and fees are paid, we expect the issuance of a U.S. patent with a term extending to December 2037. If the FDA approves the use of voclosporin for LN and the label for such use follows the dosing protocol under the Notice of Allowance, the issuance of this patent will expand the scope of intellectual property protection for voclosporin, which already includes robust manufacturing, formulation, synthesis and composition of matter patents. We have also filed for protection of this subject matter under the PCT and have the option of applying for similar protection in the member countries thereof. This may lead to the granting of corresponding claims in the treaty countries which include all the major global pharmaceutical markets.

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

We have patent protection for VOS as we own two granted United States patents and 14 patents in other jurisdictions related to ophthalmic formulations of calcineurin inhibitors or mTOR inhibitors, including voclosporin. We also have one granted United States patent and 10 patents in other jurisdictions related to topical drug delivery system for ophthalmic use. These patents expire between 2028 and 2031.

CONTINGENCIES

- i) We may, from time to time, be subject to claims and legal proceedings brought against us 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 our consolidated financial position.
- ii) We have entered into indemnification agreements with our officers and directors. The maximum potential amount of future payments required under these indemnification agreements is unlimited. However, we do maintain liability insurance to limit our exposure.
- iii) We have entered into an agreement dated February 14, 2014 whereby we are required to pay a third party a royalty equivalent to 2% of royalties received on the sale of voclosporin by licensees and/or 0.3% of net sales of voclosporin sold directly by the Company. Should we sell substantially all of the assets of voclosporin to a third party or transfer those assets to another party in a merger in a manner such that this payment obligation is no longer operative, then we would be required to pay 0.3% of the value attributable to voclosporin in the transaction.
- iv) We have 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 us 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 us from making a reasonable estimate of the maximum potential amount we could be required to pay. Historically, we have not made any payments under such agreements and no amount has been accrued in the accompanying audited consolidated financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management's Annual Report on Internal Control over Financial Reporting

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

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

Management evaluated the effectiveness of our ICFR as of December 31, 2018 based on the framework set forth in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our ICFR was effective as of December 31, 2018.

DISCLOSURE CONTROLS AND PROCEDURES

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

In designing and evaluating our DC&P, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and, therefore, management is required to apply its judgment in evaluating and implementing possible controls and procedures. The Chief Executive Officer and the Chief Financial Officer, after evaluating the effectiveness of our DC&P as at December 31, 2018 have concluded that the DC&P were adequate and effective to provide reasonable assurance that material information we are required to disclose on a continuous basis in interim and annual filings and other reports and news releases is recorded, processed, summarized and reported or disclosed on a timely basis as necessary.

UPDATED SHARE INFORMATION

As at March 15, 2019, the following class of shares and equity securities potentially convertible into Common Shares were outstanding:

	(in thousands)
Common shares	91,636
Convertible equity securities	
Derivative liability warrants	3,523
Stock options	8,345

Subsequent to year-end we issued 4.61 million Common Shares and received gross proceeds of \$30 million pursuant to our ATM facility as more fully discussed in the Recent Developments section of this document,

Subsequent to year end, the 1.74 million derivative warrants outstanding at December 31, 2018 related to the February 14, 2014 private placement offering, were fully exercised. Certain holders of these warrants elected the cashless exercise option and we issued 687,000 Common Shares on the cashless exercise of 1.27 million warrants. The remaining 464,000 warrants were exercised for cash, at a price of \$3.2204 and we received cash proceeds of \$1.49 million upon the issuance of 464,000 Common Shares.

Subsequent to the year-end we granted 1.37 million stock options at a weighted average price of \$6.05 (CA \$8.04) to our officers, directors and employees and we issued 377,000 Common Shares for proceeds of \$1.30 million upon the exercise of 377,000 stock options. In addition, 234,000 stock options were forfeited.

SUPPLEMENTAL INFORMATION

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

	2018	2017	2016
	\$	\$	\$
Statement of Operations			
Revenues	463	418	173
Expenses, net	(54,556)	(47,286)	(25,200)
Change in estimated fair value of derivative warrant liabilities	(9,954)	(23,924)	1,732
Income tax expense	(73)	—	—
Net loss for the year	(64,120)	(70,792)	(23,295)
Net loss per share	(0.76)	(0.92)	(0.66)
Weighted average number of common shares outstanding	84,782	76,918	35,285
Statement of Financial Position			
Working capital	125,587	167,102	33,488
Total assets	145,863	189,847	56,997
Non-current contingent consideration	3,956	3,719	3,419
Shareholder's equity	112,575	165,743	35,950
Common shares outstanding	85,500	84,052	52,808

Quarterly Information (expressed in thousands except per share data)

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

2018	Q1	Q2	Q3	Q4	Annual
	\$	\$	\$	\$	\$
Revenues	30	29	375	29	463
Expenses					
R&D	8,887	10,504	11,152	10,839	41,382
Corporate, administration and business development	3,791	3,462	2,923	3,498	13,674
Amortization of tangible and intangible assets	399	403	408	355	1,565
Other expense (income)	(200)	(566)	(563)	(736)	(2,065)
Total expenses	12,877	13,803	13,920	13,956	54,556
Net loss before change in estimated fair value of derivative warrant liabilities	(12,847)	(13,774)	(13,545)	(13,927)	(54,093)
Change in estimated fair value of derivative warrant liabilities	(2,631)	(1,933)	(4,797)	(593)	(9,954)
Income tax expense	—	—	—	(73)	(73)
Net loss for the period	(15,478)	(15,707)	(18,342)	(14,593)	(64,120)
Per common share (\$)					
Net loss per common share – basic and diluted	(0.18)	(0.19)	(0.21)	(0.17)	(0.76)
Common Shares outstanding	84,052	85,321	85,323	85,500	85,500
Weighted average number of common shares outstanding	84,052	84,350	85,321	85,384	84,782

2017	Q1	Q2	Q3	Q4	Annual
	\$	\$	\$	\$	\$
Revenues	30	329	29	30	418
Expenses					
R&D	7,325	7,107	10,807	8,691	33,930
Corporate, administration and business development	3,427	2,901	2,650	3,118	12,096
Amortization and impairment of tangible and intangible assets	363	370	362	361	1,456
Other expense (income)	75	(152)	(315)	196	(196)
Total expenses	11,190	10,226	13,504	12,366	47,286
Net loss before change in estimated fair value of derivative warrant liabilities	(11,160)	(9,897)	(13,475)	(12,336)	(46,868)
Change in estimated fair value of derivative warrant liabilities	(40,781)	7,498	355	9,004	(23,924)
Net loss for the period	(51,941)	(2,399)	(13,120)	(3,332)	(70,792)
Per common share (\$)					
Net loss per common share – basic and diluted	(0.92)	(0.03)	(0.16)	(0.04)	(0.92)
Common Shares outstanding	82,101	83,485	83,973	84,052	84,052
Weighted average number of common shares outstanding	56,680	82,973	83,608	84,038	76,918

Summary of Quarterly Results

The primary factors affecting the magnitude of our losses in the various quarters are noted below and include the timing of R&D costs associated with the clinical development program, timing and amount of stock compensation expense, and fluctuations in the non-cash change in estimated fair value of derivative warrant liabilities.

The increase in R&D costs for the three months ended September 30, 2018 and June 30, 2018 was due to the ramp up in AURORA trial costs, and startup costs for AURORA 2 extension trial and the Phase 2 DES and FSGS studies. The increase in R&D costs for the three months ended March 31, 2018, December 31, 2017 and September 30, 2017 primarily reflect expenses associated with our AURORA trial, including CRO and drug supply expenses.

Corporate, administration and business development costs included non-cash stock-based compensation expense of \$686,000 for the three months ended December 31, 2018, \$887,000 for the three months ended September 30, 2018, \$1.26 million for the three months ended June 30, 2018, \$1.33 million for the three months ended March 31, 2018, \$656,000 for the three months ended December 31, 2017, \$795,000 for the three months ended September 30, 2017, \$718,000 for the three months ended June 30, 2017, and \$1.08 million for the three months ended March 31, 2017. The three months ended March 31, 2017 also included a provision amount of \$519,000 related to the departure of the former Chief Executive Officer (Charles Rowland) on February 6, 2017.

We record non-cash adjustments each quarter resulting from the fair value revaluation of the derivative warrant liabilities. These revaluations fluctuate based primarily on the market price of our Common Shares. An increase in the market price of our Common Shares results in a loss on revaluation while a decrease results in a gain on revaluation.

The change in the estimated fair value of the derivative warrant liabilities for the three months ended December 31, 2018 of \$ 593,000 primarily reflected an increase in our share price to \$6.82 per share at December 31, 2018 compared to \$6.64 per share at September 30, 2018 while the change in the estimated fair value of the derivative warrant liabilities for the three months ended September 30, 2018 of \$4.80 million primarily reflected an increase in our share price to \$6.64 per share at September 30, 2018 compared to \$5.63 per share at June 30, 2018. The change in the estimated fair value of the derivative warrant liabilities for the three months ended June 30, 2018 of \$1.93 million primarily reflected an increase in our share price to \$5.63 per share at June 30, 2018 compared to \$5.19 per share at March 31, 2018. The change in the estimated fair value of the derivative warrant liabilities for the three months ended March 31, 2018 of \$2.63 million primarily reflected an increase in our share price to \$5.19 per share at March 31, 2018 compared to \$4.53 per share at December 31, 2017.

The change in the estimated fair value of the derivative warrant liabilities for the three months ended December 31, 2017 of \$9.01 million primarily reflected a decrease in our share price to \$4.53 per common share at December 31, 2017 compared to \$6.27 per share at September 30, 2017. The change in the estimated fair value of the derivative warrant liabilities for the three months ended June 30, 2017 of \$7.50 million primarily reflected a decrease in our share price to \$6.13 per common share at June 30, 2017 compared to \$7.34 per common share at March 31, 2017. The change in the estimated fair value of derivative warrant liabilities of \$40.78 million for the three months ended March 31, 2017 reflected the significant increase in our share price from \$2.10 per common share at December 31, 2016 to \$7.34 per common share at March 31, 2017.

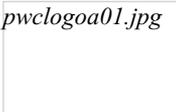
Fourth Quarter Analysis (See *Quarterly Information* above for the fourth quarter comparative information detail).

We recorded a consolidated net loss of \$14.59 million or \$0.17 per common share for the fourth quarter ended December 31, 2018, compared to a consolidated net loss of \$3.33 million or \$0.04 per common share for the fourth quarter ended December 31, 2017.

The increase of \$11.26 million in the consolidated net loss was primarily attributable to the following items on a net basis:

- The change in estimated fair value of derivative warrant liabilities was \$9.95 million as we recorded an increase of \$593,000 in the estimated fair value of derivative warrant liabilities for the fourth quarter ended December 31, 2018 compared to decrease in the estimated fair value of derivative warrant liabilities of \$9.00 million for the fourth quarter of 2017.
- An increase in R&D expenses of \$2.15 million in the fourth quarter of 2018 primarily attributable to costs incurred for the AURORA 2 extension trial, the DDI study and the FSGS and DES Phase 2 studies which were newly enrolled studies in 2018;
- Other expense (income) reflected income of \$736,000 for the fourth quarter of 2018 compared to a net expense of \$196,000 for the fourth quarter of 2017. This change was primarily due to a net change in finance income of \$862,000 between the two periods.

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Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in this Annual Report on Form 40-F for the year ended December 31, 2018 of Aurinia Pharmaceuticals Inc. of our report dated March 15, 2019, relating to the consolidated financial statements, which appears in this Annual Report.

We also consent to the incorporation by reference in the Registration Statements on Form F-10 A (No. 333-222413) , Form S-8 (No. 333-225538) and Form S-8 (No. 333-216447) of Aurnia Pharmaceuticals Inc. of our report dated March 15, 2019 referred to above. We also consent to reference to us under the heading “Interests of Experts,” which appears in the Annual Information Form included in the Exhibit incorporated by reference in this Annual Report on Form 40-F, which is incorporated by reference in such Registration Statements.

“/s/PricewaterhouseCoopers LLP”

Chartered Professional Accountants
Edmonton, Alberta
Canada

March 19, 2019

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

I, Richard M. Glickman, certify that:

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

Dated: March 19, 2019

AURINIA PHARMACEUTICALS INC.

/s/ Richard M. Glickman

Name:

Richard M. Glickman

Title:

Chairman and Chief Executive Officer

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

I, Dennis Bourgeault, certify that:

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

Dated: March 19, 2019

AURINIA PHARMACEUTICALS INC.

/s/ Dennis Bourgeault

Name: Dennis Bourgeault
Title: Chief Financial Officer

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

In connection with the Annual Report of Aurinia Pharmaceuticals Inc. (the "Company") on Form 40-F for the fiscal year ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard M. Glickman, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Dated: March 19, 2019

AURINIA PHARMACEUTICALS INC.

/s/ Richard M. Glickman

Name: Richard M. Glickman

Title: Chairman and Chief Executive Officer

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

In connection with the Annual Report of Aurinia Pharmaceuticals Inc. (the "Company") on Form 40-F for the fiscal year ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dennis Bourgeault, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Dated: March 19, 2019

AURINIA PHARMACEUTICALS INC.

/s/ Dennis Bourgeault

Name: Dennis Bourgeault

Title: Chief Financial Officer