

AQUINOX PHARMACEUTICALS INC.

WAITING FOR THE PULLBACK

August 11, 2015

RATING:
HOLD

SUITE 450, 887 GREAT
NORTHERN WAY
VANCOUVER, BC V5T 4T5
CANADA
WWW.AQXPHARMA.COM

ANALYST BRIEF:

Summary

Aquinox Pharmaceuticals, Inc., formerly Aquinox Pharmaceuticals (USA) Inc., incorporated on May 25, 2007, is a clinical stage pharmaceutical company discovering and developing targeted therapeutics in disease areas of inflammation and immuno-oncology. Aquinox Pharmaceuticals (Canada) Inc. is a wholly owned subsidiary of the Company. The primary focus of the Company is anti-inflammatory product candidates targeting SHIP1, which is a regulator of a cellular signaling pathway in immune cells, known as the PI3K pathway. Its lead product candidate, AQX-1125, is a small molecule activator of SHIP1 suitable for oral, once daily dosing. The Company operates in Vancouver, British Columbia, Canada.

The Company has completed multiple preclinical studies and clinical trials with AQX-1125, it is advancing through Phase II development in several initial indications. The Company is investigating AQX-1125 in three Phase II clinical trials, one in Chronic Obstructive Pulmonary Disease (COPD), one in Bladder Pain Syndrome/Interstitial Cystitis (BPS/IC) and one in Atopic Dermatitis (AD). COPD, BPS/IC and severe forms of AD are debilitating chronic inflammatory diseases.

Aquinox Pharmaceuticals Inc. has a current market capitalization of \$111.78 M with 10.72 M outstanding shares. Its daily volume traded on July 29th was approximately 2.27 million shares.

Key Indicators (Annual)

Shares Outstanding	10.72 M
Revenue	Nil
Gross Profit	Nil
Net Loss	-24.03 M
Cash and Short-term Inv	6.56 M
Total Debt	Nil

Performance (6 months)



Recent News

Aquinox has experienced a massive gain in the past two trading days, gaining from Thursday's close of \$1.79 per share to a whopping high of \$55.75 on Monday before settling at \$18.88, or up 81%. The massive volume and share price appreciation can be attributed to two factors; the company announced Q2 financials on Thursday after market close, reporting an EPS of \$(0.44) as opposed to analyst estimate of \$(0.49). This earnings beat was just a small portion of the reason for such immense gains over the past several days. The more important factor that drove share price to such high levels was the announcement of positive mid – trial results for AQX-1125, the company's only clinical-stage drug candidate, for bladder pain syndrome/interstitial cystitis. The stock had been trading in low single digits

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since July 10, when the drug had failed a trial of chronic obstructive pulmonary disease. The combination of this positive news coming from the company, along with the low float of the stock lead to this massive gain mostly driven by institutional investors. Baker Brothers Investments revealed it had increased its holding in the company to 40%. Drug makers Pfizer Inc. and Johnson & Johnson have also invested in Aquinox.

The question that now remains for the company is whether the gains in the share price are sustainable and whether more news is on its way. Is this a steady tailwind or a short- lasting hurricane? Considering the company has just two drugs in its pipeline, success is strongly dependent on the success of these two drugs. Though institutional investors and large drug makers alike believe the company will be successful based on their recent investment in the Aquinox, it is believed that this is a risky endeavor. Though it is believed that in the next several trading days, the share price will settle and move lower to a more sustainable level, the future for Aquinox appears favorable.

Pros

- The company was able to beat earnings estimates which are a huge positive for a non-revenue generating company. It essentially says the company has been able to reduce costs and manage its finance effectively.
- Positive mid – trial results that caused a 2000% jump in share price appear to be only a small taste of what's to come for Aquinox. One can only imagine the response from the market once the drug passes trials and begins FDA approval.

Cons

- Although positive results from the current trial shook the market for Aquinox, the issue is that this is one of two drugs the company has in its pipeline. Should anything go wrong, the depreciation could be much steeper than the increase that was recently observed.
- Pipeline is very important for pharmaceutical companies. Aquinox does not have much of a pipeline and this poses immense risk for an investor.

Verdict

Timing this event was impossible but it does give one a taste of what can happen in the Biotech space and how much of an effect positive news can have on the share price. Aquinox has attracted investor attention and will certainly be news driven for some time into the future. In the short term, it is expected that the share price will pull back to a more sustainable level before the next news event. Should this event be positive in any way, the share price will certainly reflect it. The stock of Aquinox is recommended as a 'Hold' for the short term to wait out the upcoming pullback.

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Sources:

1. <http://www.reuters.com/finance/stocks/companyProfile?rpc=66&symbol=AQXP.O>
2. <https://www.google.ca/finance?q=AQXP&ei=kznJVfGoAoHFe-jFq6AD>
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5. <http://aqxpharma.com/content/pipeline>
6. <http://www.bloomberg.com/news/articles/2015-08-10/aquinox-soars-as-company-moves-ahead-with-pain-and-eczema-drug?cmpid=yhoo>

Risk Factors

An investment in the common stock of the company is subject to a number of risks. The information below contains latest filings and risk factors that should be considered by all investors. Investors should carefully consider the risk factors set out below and consider all other information contained herein, and in the company's SEC filings, before making an investment decision. We assume no obligation to update or revise any such forward looking statements to reflect events or circumstances that occur after such statements are made. A complete list of filings including the risk factors for the company can be found here: <http://www.sec.gov/cgi-bin/browse-edgar?CIK=prgn&Find=Search&owner=exclude&action=getcompany>

Our Rating System

We rate enrolled companies based on the appreciation potential we believe their shares represent, and the "riskiness" we perceive in our ratings. The business results of those companies "NOT RATED" are often highly dependent on some future event, such as FDA drug approval or the option of a new key technology.

Explanation of Ratings

OVERWEIGHT/BUY

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country Index average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

EQUAL WEIGHT/HOLD

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

NOT RATED

Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

UNDERWEIGHT/SELL

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country's equity indices and/or the total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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