

AURORA SPINE CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2017

(UNAUDITED)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed interim consolidated financial statements have been prepared by and are the responsibility of management. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed interim consolidated financial statements of the Company for the nine-month period ended September 30, 2017 in accordance with standards established by the Canadian Institute of Chartered Accountants.

AURORA SPINE CORPORATION
Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(US dollars)

	Notes	September 30, 2017	December 31, 2016
ASSETS			
Current			
Cash	6	\$ 188,233	\$ 192,842
Trade and other receivables		1,086,162	1,228,553
Prepaid expenses and deposits		296,442	318,386
Inventory	7	2,808,006	2,996,940
Total current assets		<u>4,378,843</u>	<u>4,736,721</u>
Non-current			
Intangible assets	8	267,901	210,966
Property and equipment	9	1,479,552	2,095,565
Total non-current assets		<u>1,747,453</u>	<u>2,306,531</u>
Total assets		<u>\$ 6,126,296</u>	<u>\$ 7,043,252</u>
LIABILITIES			
Current			
Trade and other payables	10	\$ 1,978,984	\$ 2,400,196
Total current liabilities		<u>1,978,984</u>	<u>2,400,196</u>
Non-current			
Due to related parties	12	1,740,000	1,172,963
Total non-current liabilities		<u>1,740,000</u>	<u>1,172,963</u>
Total liabilities		<u>3,718,984</u>	<u>3,573,159</u>
SHAREHOLDERS' EQUITY			
Common shares	11	19,582,424	19,358,978
Contributed surplus		572,807	516,768
Deficit		(17,747,919)	(16,405,653)
Total shareholders' equity		<u>2,407,312</u>	<u>3,470,093</u>
Total liabilities and shareholders' equity		<u>\$ 6,126,296</u>	<u>\$ 7,043,252</u>
Going Concern	2		
Commitments	13		
Subsequent Event	16		

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

These condensed interim consolidated financial statements were approved by the Board of Directors on November 27, 2017.

/s/ Trent Northcutt
Director

/s/ David Rosenkrantz
Director

AURORA SPINE CORPORATION
Condensed Interim Consolidated Statements of Comprehensive Loss (Unaudited)

(US dollars)

	Notes	Three-month period ended September 30		Nine-month period ended September 30	
		2017	2016	2017	2016
REVENUE		\$ 1,676,738	\$ 1,625,676	\$ 4,639,139	\$ 5,067,893
Cost of goods sold	7	970,801	826,949	2,412,565	2,492,879
GROSS PROFIT		<u>705,937</u>	<u>798,727</u>	<u>2,226,574</u>	<u>2,575,014</u>
OPERATING EXPENSES					
Executive compensation		135,750	137,000	415,158	387,792
Salaries		305,131	353,623	1,006,120	935,140
Consulting fees		54,595	50,462	204,757	196,976
General and administrative		143,414	171,425	415,066	512,883
Research and development		1,376	10,730	11,933	25,171
Marketing		1,882	14,176	14,443	26,247
Occupancy		17,276	87,072	99,887	194,035
Professional fees		57,313	125,240	411,307	299,492
Stock based compensation	11	10,046	85,000	56,039	174,230
Insurance		89,222	73,934	278,872	212,499
Depreciation and amortization	8, 9	189,276	190,502	632,755	571,502
Interest		29,038	22,570	85,066	24,059
TOTAL OPERATING EXPENSES		<u>1,034,319</u>	<u>1,321,734</u>	<u>3,631,403</u>	<u>3,560,026</u>
OPERATING LOSS		<u>(328,382)</u>	<u>(523,007)</u>	<u>(1,404,829)</u>	<u>(985,012)</u>
Gain on sale of property and equipment		–	–	62,563	–
NET LOSS AND COMPREHENSIVE LOSS		<u>\$ (328,382)</u>	<u>\$ (523,007)</u>	<u>\$ (1,342,266)</u>	<u>\$ (985,012)</u>
Basic and diluted loss per share	14	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>	<u>\$ (0.03)</u>

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

AURORA SPINE CORPORATION

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

(US dollars)

	Notes	Common shares	Amount	Contributed surplus	Deficit	Total
Balance, December 31, 2015		30,723,674	\$18,972,153	\$447,241	\$(14,726,402)	\$4,692,992
Private placement, May 2016		2,525,000	394,179	–	–	394,179
Share issuance costs		–	(7,354)	–	–	(7,354)
Stock based compensation		–	–	174,230	–	174,230
Total comprehensive loss		–	–	–	(985,012)	(985,012)
Balance, September 30, 2016		<u>33,248,674</u>	<u>\$19,358,978</u>	<u>\$621,471</u>	<u>\$(15,711,414)</u>	<u>\$4,269,035</u>
Balance, December 31, 2016	11	33,248,674	\$19,358,978	\$ 516,768	\$(16,405,653)	\$3,470,093
Private placement, April 2017	11	1,670,000	225,209	–	–	225,209
Share issuance costs	11	–	(1,763)	–	–	(1,763)
Stock based compensation	11	–	–	56,039	–	56,039
Total comprehensive loss		–	–	–	(1,342,266)	(1,342,266)
Balance, September 30, 2017		<u>34,918,674</u>	<u>\$19,582,424</u>	<u>\$572,807</u>	<u>\$(17,747,919)</u>	<u>\$2,407,312</u>

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

AURORA SPINE CORPORATION
Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(US dollars)

	Notes	Three-month period ended September 30		Nine-month period ended September 30	
		2017	2016	2017	2016
OPERATING ACTIVITIES					
Net loss		\$ (328,382)	\$ (523,007)	\$ (1,342,266)	\$ (985,012)
Adjustments					
Depreciation and amortization	8, 9	189,276	190,502	632,755	571,502
Stock based compensation	11	10,046	85,000	56,039	174,230
Gain on sale of property and equipment		–	–	(62,563)	–
Changes in working capital components					
Trade and other receivables		(38,854)	54,152	142,391	(169,108)
Prepaid expenses and deposits		(114,946)	34,024	21,944	112,822
Inventory		59,243	173,658	188,934	219,921
Trade and other payables	10	(77,057)	(463,744)	(421,212)	(1,266,655)
Cash flows used in operating activities		<u>(300,674)</u>	<u>(449,415)</u>	<u>(783,978)</u>	<u>(1,342,300)</u>
FINANCING ACTIVITIES					
Private placement, net of issuance costs	11	–	–	223,446	386,825
Due to related parties		362,037	1,007,500	567,037	1,007,500
Cash flows received from financing activities		<u>362,037</u>	<u>1,007,500</u>	<u>790,483</u>	<u>1,394,325</u>
INVESTING ACTIVITIES					
Additions to intangible assets	8	–	–	(81,321)	–
Proceeds from sale of property and equipment		–	–	106,012	–
Changes to property and equipment	9	19,021	72,466	(35,805)	116,571
Cash flows used in investing activities		<u>19,021</u>	<u>72,466</u>	<u>(11,114)</u>	<u>116,571</u>
Net change in cash		80,384	630,551	(4,609)	168,596
Cash, beginning of period		<u>107,849</u>	<u>117,676</u>	<u>192,842</u>	<u>579,631</u>
Cash, end of period		<u>\$ 188,233</u>	<u>\$ 748,227</u>	<u>\$ 188,233</u>	<u>\$ 748,227</u>

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

AURORA SPINE CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

(US dollars)

1. CORPORATE INFORMATION

Aurora Spine, LLC was incorporated under the *Delaware General Corporation Law* on February 28, 2012. Aurora Spine, Inc. (“Aurora”), a Nevada Corporation, was formed on March 14, 2013 and on April 1, 2013 Aurora Spine, LLC merged with Aurora. Upon merging, Aurora Spine, LLC was dissolved leaving the surviving business known as Aurora Spine, Inc., a Nevada Corporation.

Aurora Spine Corporation (the “Company”) was incorporated under the laws of the Province of Ontario on July 4, 2013 and on August 27, 2013 filed an Initial Public Offering Prospectus with securities regulatory authorities in the provinces of Alberta and Ontario, pursuant to which the shareholders of Aurora exchanged their shares for the shares of the Company. Aurora is a wholly owned subsidiary of the Company. The Company’s shares trade on the TSX Venture Exchange under the symbol “ASG”.

The Company is in the business of development and commercialization of innovative, minimally invasive, interspinous fusion systems and devices. The address of the Company’s registered head office is 20 Holly Street, Suite 300, Toronto, Ontario, M4S 3B1.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors on November 27, 2017.

2. BASIS OF PREPARATION

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). These condensed interim consolidated financial statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2016. The Company’s significant accounting policies as presented in Note 3 of the financial statements for the year ended December 31, 2016 have been consistently applied in the preparation of these condensed interim consolidated financial statements.

Going concern

These condensed interim consolidated financial statements have been prepared on a basis applicable to a going concern which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue as a going concern and is dependent upon further financing and ultimately, the attainment of profitable operations. These condensed interim consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Management of the Company plans to fund its future operations and settle its debt by obtaining additional financing through loans and private placements.

Basis of measurement and reporting

These condensed interim consolidated financial statements are prepared using the historical cost method and are presented in US dollars, which is Company’s functional currency.

Basis of consolidation

These condensed interim consolidated financial statements consolidate the accounts of the Company, its United States wholly-owned subsidiary Aurora Spine Inc. and its European wholly-owned subsidiary Aurora Spine Europe Limited. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. These subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern, directly or indirectly, the financial and operating policies. The existence and effect of potential voting rights that are presently exercisable or convertible are considered when assessing whether the company controls another entity. Any subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date on which control ceases.

Use of estimates and judgement

The preparation of these condensed interim consolidated financial statements in conformity of IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the condensed interim consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

2. BASIS OF PREPARATION (continued)

Judgment is used in situations when there is a choice and/or assessment requirement by management. The following are critical judgments apart from those involving estimations that management has made in the process of applying the Company's accounting policies and that have a significant effect on the amounts recognized in the consolidated financial statements.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the date of these condensed interim consolidated financial statements, could result in a material adjustment to the carrying amounts of assets or liabilities. In the event that actual results differ from the assumptions made, relate to, but are not limited to the following:

(a) Fair value of financial instruments

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty and are heavily dependent on the assumptions made.

(b) Impairment of non-financial assets

Impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the future operating life of assets currently in development.

(c) Contingencies

Contingencies are accrued on an undiscounted basis when it is probable that a liability for past events exists and the liability can be reasonably estimated. In determining whether a liability exists, the Company is required to make judgments as to the probability of future events occurring.

(d) Going concern

As discussed above, these condensed interim consolidated financial statements have been prepared in accordance with IAS 34 on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment in determining assumptions for cash flow projections, such as anticipated financing, deferral of commitments, negotiation of supplier terms and future commitments to assess the Company's ability to continue as a going concern. A critical judgement is that the Company continues to raise funds going forward and satisfy their obligations as they become due.

(e) Estimation uncertainty disclosure for share based payments and warrants

The fair value of each option granted is estimated at the grant date using the Black-Scholes option pricing model. The key assumptions are forfeiture rate, interest rate, dividend yield and expected volatility which is used to calculate the grant date fair value of the instruments. The model takes into account the historical volatility of similar companies share prices over the expected term of the options and warrants granted. If management estimates that historical volatility requires an adjustment, the Company also takes into consideration the historical volatility of comparable companies at similar stages of development as the Company as well as the volatility estimates derived from the fair value calculation of financial instruments and equity instruments in periods when this information is available.

(f) Intangible assets and their impairment

The Company assesses each intangible asset annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. As at September 30, 2017 and December 31, 2016, management's assessment of impairment is based on the following judgements:

- i) The intellectual rights are not expected to expire in the near term;
- ii) The Company is continuing with further development and sales related to the assets;

On an ongoing basis, the Company evaluates each intangible asset on results to date to determine other assessment that is warranted in the future. If there is little prospect of future work associated with the asset, the asset is written off or written down to the estimated amount recoverable unless there is persuasive evidence that an impairment allowance is not required.

(g) Inventory

Management has estimated the value of inventory based upon its assessment of the net realizable value less selling costs. All slow moving merchandise has been allowed for by management.

AURORA SPINE CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

(US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these condensed interim consolidated financial statements are set out below.

(a) Cash

Cash represents balances with the Company's banks, readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

(b) Inventories

Inventories are initially recognized at cost and subsequently stated at the lower of cost and net realizable value. The Company's inventory primarily consists of implants (devices used in surgery). Costs of each type of inventory are determined using the first-in, first-out ("FIFO") method and includes expenditures incurred in acquiring the inventories, sterilization, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. The Company outsources its manufacturing operations to third-party manufacturers. Net realizable value is the estimated selling price less applicable selling expenses. If carrying value exceeds net realizable amount, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist. When inventories are sold, the carrying amount of these inventories are recognized as an expense in the period in which the related revenue is recognized.

(c) Property and equipment

Property and equipment are recorded at cost and are depreciated over the estimated useful lives of the assets.

The Company reviews the estimated useful lives, residual values and depreciation method at each year end, accounting for the effect of any changes in estimate on a prospective basis.

Depreciation is recognized in statements of operations and comprehensive loss on the following basis:

Asset	Basis	Rate
Machinery and equipment	Declining balance	20%
Computer equipment	Declining balance	20%
Furniture and fixtures	Declining balance	14%
Software	Declining balance	33%
Trays and instrument sets	Declining balance	20%
Leaseholds	Straight line - 5 year	20%

As at September 30, 2017 and December 31, 2016, there was no impairment of the Company's property and equipment.

(d) Patent and intellectual property

Research costs are expensed as incurred. Expenditures on development activities are capitalized only if the product or process is technically and commercially feasible, development costs can be measured reliably, future economic benefits are probable, the Company intends to use or sell the asset and the Company intends and has sufficient resources to complete development.

The Company capitalizes the cost of acquiring patents, intellectual property and licenses, as well as the cost of preparing the products to enter medical testing, including the design of the testing, and will amortize that cost over the useful life of the product once the system is approved and ready for use. As at September 30, 2017, the Company recognized \$24,386 of amortization expense on its intangible assets. No amortization expense was recognized through December 31, 2016. As at September 30, 2017 and December 31, 2016, there was no impairment of intellectual property and product development charges.

(e) Impairment of property and equipment and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether any indication exists that those assets have suffered an impairment loss. If any such indication exists, it estimates the asset's recoverable amount to determine the extent of the impairment loss, if any. Where it is not possible to estimate a specific asset's recoverable amount, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, assets are also allocated to specific cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment of property and equipment and intangible assets

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the Company discounts estimated future cash flows to their present value using a pre-tax discount rate reflecting current market.

If an asset or cash-generating unit's recoverable amount is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount, recognizing an impairment loss immediately in the statements of operations and comprehensive loss. Where an impairment loss subsequently reverses, the carrying amount is increased to the revised estimate of its recoverable amount, without exceeding the carrying amount that would have been determined if no impairment loss had been recognized in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statements of comprehensive loss.

(f) Revenue

The Company derives its revenues primarily from the sale of spinal surgery implants. These spinal surgery implants may include patented ZIP MIS implant devices as well as vertebral body products and bone grafting materials (referred to as "biologics"). Revenue from the products is recognized when the significant risks and rewards of ownership have been transferred to the customer, the sales price and costs can be measured reliably, and it is probable that the economic benefits will flow to the Company. These criteria are generally met at the time the product is shipped, delivered to the customer, title and risk have passed to the customer, and acceptance of the product has been obtained.

The Company also receives revenue from referral fees. Revenue from referral fees primarily results from referring certain products to distributors and is recognized once the referral results in a sale.

(g) Cost of sales

Cost of sales includes the cost of manufacturing finished goods inventory (including amortization and impairment charges), costs related to transportation and inventory write-downs.

(h) Provisions

The Company recognizes a provision when it has a present obligation (legal or constructive) as a result of a past event, it is probable that it will be required to settle the obligation, and it can make a reliable estimate of the amount of the obligation. The amount it recognizes as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(i) Share-based payments

Where equity-settled stock options are awarded to employees, the fair value of the stock options at the date of grant is charged to the statements of operations and comprehensive loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after modification, is also charged to the statement of comprehensive loss over the remaining vesting period. Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument at the grant date. The grant date fair value is recognized in statements of comprehensive loss over the vesting period, described as the period during which all the vesting conditions have been met.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in statements of comprehensive loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital. When the value of goods and services received in exchange for the stock based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of exercise restrictions, and behavioral considerations. All equity-settled stock based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to shareholders' capital, adjusted for any considerations.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(j) Earnings per share**

Basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares outstanding during the period. The computation of diluted income (loss) assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted income (loss) per share by application of the “if converted” method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method. In years when the Company reports a comprehensive loss, the effect of potential issuances of shares under options and warrants would be anti-dilutive, and therefore, basic and diluted loss per share are the same.

(k) Foreign currency translation

The Company’s functional currency is the US dollar (“USD”). The Company’s subsidiaries functional currencies are the USD for Aurora Spine, Inc. and the USD for Aurora Spine Europe Limited. Monetary assets and liabilities denominated in a foreign currency are translated to USD at exchange rates in effect at the end of the reporting period and non-monetary assets are transferred at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in statements of comprehensive loss.

(l) Financial instruments

The Company initially measures financial instruments at fair value. Fair value estimates of financial instruments are made at a specific point in time based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. The Company’s financial instruments consist of cash, trade receivables, deferred liability, due to related parties, trade and other payables and shareholder loan.

The fair value of trade receivables, due to related parties and trade and other payables are approximately equal to their carrying value due to their short-term nature.

The Company classifies financial instruments recognized at fair value in accordance with a fair value hierarchy that include the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following is a summary of significant categories of financial instruments outstanding at September 30, 2017:

Cash	Fair value through profit or loss
Trade and other receivables	Loans and receivables
Trade and other payables	Financial liabilities
Due to related parties	Financial liabilities

Subsequent measurement and treatment of any gain or loss is recorded as follows:

Financial assets at Fair Value Through Profit or Loss (“FVTPL”) are measured at fair value at the date of the statement of financial position with any gain or loss recognized immediately in net income. Interest and dividends earned from these assets are also included in net income for the period. Cash is the only item currently classified as financial assets at FVTPL and is a Level 1.

Loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses are recognized on the Statement of Comprehensive Loss. Other financial liabilities are measured at amortized cost using the effective interest method with interest expense recognized on an effective yield basis. This classification applies to the majority of the Company’s financial liabilities including trade and other payables. Loans and borrowings are classified as current liabilities unless the Company has the unconditional right to defer settlement for at least 12 months after the end of the reporting period.

4. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Company manages risk through establishing policies that provide management oversight related to the risks of operations, including ensuring that risks are identified and assessed, and that appropriate and effective policies are in place. Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, market risk is segregated into three categories: other market risk, interest rate risk and currency risk. Other risks associated with financial instruments include credit risk and liquidity risk.

Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the end of the reporting period.

[i] Cash

The Company minimizes its exposure to credit risk by keeping the majority of its cash as cash on deposit with a major US chartered bank. Management expects the credit risk to be minimal.

[ii] Trade receivables

The exposure to credit risk for the Company's trade receivables is considered minimal. The Company will continuously monitor for defaults of counterparties.

Foreign currency risk

The prices paid by the Company's subsidiary for services and supplies are paid in US dollars, Great British pounds, Euros and Canadian dollars. The Company raised funds in Canadian dollars, which have been converted to US dollars. All financial instruments are denominated in US dollars. The Company is not significantly exposed to currency risk as at September 30, 2017 and December 31, 2016 and as such not deemed to be a risk to be hedged at the present time.

Interest rate risk

Interest rate risk arises because of changes in market interest rates. The Company considers itself to have very minimal exposure to interest rate risk.

Liquidity risk

Liquidity risk includes the risk that the Company will not be able to meet operational liquidity requirements to conduct its business.

The Company's operating cash requirements include amounts necessary to obtain regulatory approval to commercialize its products. The Company's objective is to maintain sufficient liquid resources to meet operational requirements. As at September 30, 2017, the Company's working capital position was \$2,399,859 (December 31, 2016 - \$2,336,525). The Company's continuing operations are dependent upon its ability to secure additional equity capital, divest assets or generate cash flow from operations in the future, none of which are assured. There can be no assurances that the Company's activities will be successful or that sufficient funds can be raised in a timely manner.

The following summarizes the maturity profile of the Company's financial liabilities as at September 30:

Liability	Terms	September 30, 2017	December 31, 2016
Trade and other payables	Due within one year	\$ 1,978,984	\$ 2,400,196
Shareholder loan	Due within one to five years	1,740,000	1,172,963

Capital management

The Company's objective when managing capital, defined as its equity, is to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The Company is not subject to any externally imposed capital requirements. The Company's objective is to ensure adequate working capital to commercialize its products and it will use the sale of equity to fund its business to the point of revenue generation and asset based borrowing being sufficient to fund the business fully. The Company considers its capital to be the aggregate of shareholders' equity, comprising share capital, contributed surplus and deficit, which at September 30, 2017 was \$2,407,312 (December 31, 2016 - \$3,470,093).

There is no change to the Company's capital management policy for the nine months ended September 30, 2017. There are no externally imposed restrictions on capital.

AURORA SPINE CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

(US dollars)

5. RECENT AND FUTURE ACCOUNTING PRONOUNCEMENTS

Future Accounting Pronouncements

Certain pronouncements have been issued by the IASB or IFRIC (IFRS Interpretations Committee) that will be effective for future accounting periods. Many of these are not applicable to the Company and so are not listed below. The following is a brief summary of the new standards:

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 - Revenue from Contracts with Customers – The standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets From Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contract with customers. This standard is effective for annual periods beginning on or after January 1, 2018, and permits early adoption.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019.

6. CASH

	September 30, 2017	December 31, 2016
Cash at banks	\$ 188,233	\$ 192,842

Cash earns interest at floating rates based on daily bank deposit rates.

7. INVENTORY

The following comprises inventory:

	September 30, 2017	December 31, 2016
Spinal implants	\$ 790,820	\$ 955,212
TiNano PEEK implants	1,631,372	1,619,374
Biologics	173,418	189,025
WIP and sub-assembly	212,396	233,329
Total	\$2,808,006	\$2,996,940

The cost of goods sold during the three and nine months ended September 30, 2017 is \$970,801 and \$2,412,565 (three and nine months ended September 30, 2016 - \$826,949 and \$2,492,879).

AURORA SPINE CORPORATION**Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)***(US dollars)***8. INTANGIBLE ASSETS**

The following comprises intangible assets:

	September 30, 2017	December 31, 2016
Opening balance	\$ 210,966	\$ 210,966
Acquisition costs	81,321	–
Amortization costs	(24,386)	–
Ending balance	\$ 267,901	\$ 210,966

The Company capitalizes the cost of acquiring intellectual property. Carrying amounts are subject to impairment review annually and whenever there is an indication that an intangible asset may be impaired and where conditions exist, impairment is recognized. As at September 30, 2017, the Company had recognized \$24,386 of amortization expense. No amortization expense was recognized as of December 31, 2016. No impairment was recognized as of September 30, 2017 and December 31, 2016.

9. PROPERTY AND EQUIPMENT

Property and equipment as at September 30, 2017 are composed of the following:

	Trays and Instruments	Machinery and Equipment	Computer Equipment	Furniture and fixtures	Software	Leaseholds	Total
Cost							
As at December 31, 2016	\$3,639,625	\$49,487	\$79,150	\$101,736	\$49,763	\$75,618	\$3,995,379
Additions	29,022	–	–	–	–	6,783	35,805
Disposals	(72,415)	–	–	–	(49,763)	(75,618)	(197,796)
As at September 30, 2017	3,596,232	49,487	79,150	101,736	–	6,783	3,833,388
Accumulated depreciation							
As at December 31, 2016	1,686,027	24,899	51,056	44,614	49,763	43,455	1,899,814
Disposals	(28,966)	–	–	–	(49,763)	(75,618)	(154,347)
Depreciation for the period	545,664	7,422	11,872	10,683	–	32,728	608,369
As at September 30, 2017	2,202,725	32,321	62,928	55,297	–	565	2,353,836
Net book value							
As at September 30, 2017	\$1,393,507	\$17,166	\$16,222	\$ 46,439	\$ –	\$ 6,218	\$1,479,552

10. TRADE AND OTHER PAYABLES

Trade and other payables of the Company are principally comprised of amounts outstanding for trade purchases relating to development activities and amounts payable for operating and financing activities. The usual credit period taken for trade purchases is between 30 to 90 days.

The following comprises trade and other payables:

	September 30, 2017	December 31, 2016
Trade and other payables	\$ 1,978,984	\$ 2,400,196

AURORA SPINE CORPORATION**Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)***(US dollars)***11. SHAREHOLDERS' EQUITY****[a] Share capital**

The number of authorized common shares is unlimited.

The continuity of share capital is as follows:

Common Shares

	Common Shares	
	#	\$
Balance, December 31, 2016	33,248,674	19,358,978
Private placement, April 6, 2017 ^(a)	1,670,000	225,209
Share issuance costs, April 6, 2017 ^(a)	–	(1,763)
Balance, September 30, 2017	34,918,674	19,582,424

- (a) On April 6, 2017, the Company completed a non-brokered private placement of common shares, pursuant to which the Company issued 1,670,000 common shares at a price of CDN\$0.18 (US\$0.1349) per share for aggregate gross proceeds of CDN\$300,600 (US\$225,209). Share issuance costs totaled CDN\$2,246 (US\$1,763). A director of the Company subscribed for an aggregate of 835,000 common shares for cash consideration of CDN\$150,300 (US\$112,642).

[b] Stock options

A stock option plan was approved and adopted by the Board of Directors of the Company on September 5, 2013. The Board of Directors may from time to time grant to directors, employees and consultants, options to acquire common shares.

The plan provides that the maximum number of common shares which may be reserved for issuance to Insiders may not exceed 10% of the common shares outstanding at the time of grant. A grant to Insiders, within any twelve-month period, of options reserving for issuance a number of shares may not exceed 10% of the common shares outstanding at the time of grant. A grant to any one individual, within any twelve-month period, of options reserving for issuance a number of shares may not exceed 5% of the common shares outstanding at the time of the grant, except in certain circumstances. A grant to all persons engaged by the Company to provide investor relations activities, within any twelve-month period, of options reserving for issuance a number of shares may not exceed 2% of the common shares outstanding at the time of the grant. Finally, a grant to any one consultant, in any twelve-month period, of options reserving for issuance a number of shares may not exceed 2% of the common shares outstanding at the time of the grant.

Options granted under the plan can have a maximum life period of ten (10) years after the grant date.

The option exercise price is established by the Board of Directors and may not be lower than the market price of the common shares at the time of grant.

As at September 30, 2017, the number of outstanding options which could be exercised for an equivalent number of common shares is as follows:

	Number of options	Weighted average exercise price	Weighted average remaining life in years
Balance, December 31, 2016	1,961,000	\$0.44	7.04
Issued ^{(a) (b)(c)}	917,250	\$0.18	7.29
Forfeited/cancelled	(583,500)	N/A	N/A
Balance, September 30, 2017	2,294,750	\$0.22	6.94
Exercisable, September 30, 2017	474,167	\$0.31	6.17

AURORA SPINE CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

(US dollars)

11. SHAREHOLDERS' EQUITY (continued)

[b] Stock options (continued)

- (a) During the quarter ended March 31, 2017, the Company granted a total of 615,000 stock options. The options vest 1/3 on each annual anniversary for three years. The fair value of the stock options was estimated to be \$59,524 using the Black-Scholes option pricing model.
- (b) During the quarter ended June 30, 2017, the Company granted a total of 55,000 stock options. The options vest 1/3 on each annual anniversary for three years. The fair value of the stock options was estimated to be \$3,950 using the Black-Scholes option pricing model.
- (c) During the quarter ended September 30, 2017, the Company granted a total of 247,250 stock options. The options vest 1/3 on each annual anniversary for three years. The fair value of the stock options was estimated to be \$15,655 using the Black-Scholes option pricing model.

The stock compensation expensed during the three and nine months ended September 30, 2017 was \$10,046 and \$56,039 (three and nine months ended September 30, 2016 - \$85,000 and \$174,230) which relates to current and prior period grants. The remaining expense will be recognized over the balance of the vesting periods.

The fair value of the options granted during the period ended September 30, 2017 was determined using the Black-Scholes option pricing model using the following assumptions:

	March 31, 2017	June 30, 2017	September 30, 2017
Weighted average risk-free interest rate	1.45%	1.37%	1.80%
Weighted average expected volatility	97%	95%	92%
Expected life	8 years	8 years	8 years
Expected dividend yield	Nil	Nil	Nil
Weighted average share price at date of grant	\$0.19	\$0.14	\$0.13
Weighted average exercise price at date of grant	\$0.20	\$0.14	\$0.13
Weighted average forfeiture rate	39%	38%	58%

12. RELATED PARTY TRANSACTIONS

The Company's related parties include key management and personnel and considers key personnel to be those having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management are the members of the Board of Directors, the present chief executive officer, the present chief financial officer, the former chief financial officer during his time in the position, the chief technology officer and chief operating officer. Unless otherwise stated, none of the transactions incorporated special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

As at September 30, 2017, trade payable balances to related parties totaled \$22,500 (2016 - \$Nil) and there is an outstanding loan payable to a director of the Company of \$140,000 (2016 - \$157,963) which is due on or before May 2022 and is secured by the instrument sets. Additionally, there is an outstanding secured promissory note to a director of the Company of \$1,600,000 which bears an interest rate of 9% per annum and is due on or before June 2021.

On April 6, 2017, the Company completed a non-brokered private placement of common shares (the "April 2017 Offering"). Pursuant to the April 2017 Offering, the Company issued 1,670,000 common shares at a price of CDN\$0.18 (US\$ 0.1349) per share for aggregate gross proceeds of CDN\$300,600 (US\$ 225,209). Share issuance costs totaled CDN\$2,246 (US\$1,763). A director of the Company subscribed for an aggregate of 835,000 common shares for cash consideration of CDN\$150,300 (US\$ 112,642).

On July 5, 2016, the Company received a loan in the amount of US\$1,000,000 from an insider of the Company. The Loan is evidenced by a promissory note (the "Note") bearing interest at 9% per annum. The principal amount together with interest thereon is due on the five-year anniversary of the date of the Note. The Company may prepay the principal amount and interest thereon, in whole or in part, at any time without penalty. The Company's wholly owned subsidiary, Aurora Spine, Inc., has entered into certain ancillary agreements to guarantee and secure the obligations of the Company under the Note. In 2017, the Company has increased its Note to an aggregate principal amount of US\$1,600,000. All of the existing terms of the original loan remained unchanged.

AURORA SPINE CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

(US dollars)

13. COMMITMENTS

In December 2012, Aurora Spine LLC entered into two separate consultant agreements whereby the Company has a commitment to pay a 3.5% aggregate royalty to these consultants, based on gross sales of certain products sold and patent royalties received by the Company. Total royalties paid are not to exceed 6% of annual revenues of any given device or product line. Royalties will not be payable until the product can be placed in the market following successful completion of the pivotal medical testing and receipt of approval to market the products in the US and Canada from the Food and Drug Administration and Health Canada.

In November 2013, the Company entered into an asset agreement whereby the Company has agreed to pay a 2% royalty of worldwide net sales of the Intervertebral Fusion Device product, payable thirty days after the end of each calendar quarter, for the prior calendar quarter. The royalty shall be paid for six years commencing on the date of the first sale of the product.

On April 14, 2017 the Company signed a new lease with its landlord which terminates the original lease effective May 31, 2017. The new lease terms are effective June 1, 2017 and terminate on March 31, 2023. The new lease reduces the monthly base rent from \$28,718 for 17,288 square feet to \$7,650 for 5,464 square feet, plus Common Area Maintenance (“CAM”) charges and a termination fee of \$5,000 for the first 22 months. Rent expense is recorded on a straight line basis. The \$5,000 per month termination fee reduces the Company’s existing deferred rent liability. The monthly payment increases by 3% each year beginning at month 25 of the lease. Minimum lease commitments under non-cancellable operating lease are as follows:

	September 30, 2017	September 30, 2016
Less than 1 year	\$ 152,713	\$ 320,250
Between 1 year and 5 years	429,513	411,750
Thereafter	70,944	–
Total	\$ 653,170	\$ 732,000

In addition, the Company is required to pay its proportionate share of common area maintenance costs and property taxes.

14. BASIC AND DILUTED LOSS PER SHARE

	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Net loss	\$ (1,342,266)	\$ (985,012)
Weighted average common shares outstanding	34,339,659	30,735,902
Basic and diluted loss per share	\$ (0.04)	\$ (0.03)

15. SEGMENT INFORMATION

The Company operates as a holding company to a single operating entity reported as a wholly-owned subsidiary focused on the development and sale of innovative, minimally invasive, interspinous fusion systems and devices. The Company characterizes business principally in the U.S. and outside the US (“OUS”).

Revenues by geographic region are detailed as follows:

	Nine months ended September 30, 2017	Nine months ended September 30, 2016
United States	\$4,375,869	\$4,838,724
OUS	263,270	229,169
Total Revenues	\$4,639,139	\$5,067,893

16. SUBSEQUENT EVENT

On October 18, 2017, the Company completed a non-brokered private placement of common shares, pursuant to which the Company issued 1,250,000 common shares to a director of the Company at a price of CDN\$0.125 (US\$0.10) per share for aggregate gross proceeds of CDN\$156,250 (US\$125,000). Share issuance costs totaled CDN\$1,730 (US\$1,384).