

# AURORA SPINE CORPORATION

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2018

(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, 2018 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, 2018	December 31, 2017
<b>ASSETS</b>			
Current			
Cash	6	\$ 620,886	\$ 12,665
Trade and other receivables	4	1,805,525	811,491
Prepaid expenses and deposits		416,143	471,859
Inventory	7	2,168,331	2,462,509
Total current assets		<u>5,010,885</u>	<u>3,758,524</u>
Non-current			
Intangible assets	8	253,286	264,247
Property and equipment	9	933,178	1,265,720
Total non-current assets		<u>1,186,464</u>	<u>1,529,967</u>
Total assets		<u>\$ 6,197,349</u>	<u>\$ 5,288,491</u>
<b>LIABILITIES</b>			
Current			
Trade and other payables	4, 10	\$ 1,786,770	\$ 1,735,108
Total current liabilities		<u>1,786,770</u>	<u>1,735,108</u>
Non-current			
Due to related parties	4, 12	1,987,500	1,902,000
Total non-current liabilities		<u>1,987,500</u>	<u>1,902,000</u>
Total liabilities		<u>3,774,270</u>	<u>3,637,108</u>
<b>SHAREHOLDERS' EQUITY</b>			
Common shares	11	20,422,973	19,706,040
Contributed surplus		625,015	591,347
Deficit		(18,624,909)	(18,646,004)
Total shareholders' equity		<u>2,423,079</u>	<u>1,651,383</u>
Total liabilities and shareholders' equity		<u>\$ 6,197,349</u>	<u>\$ 5,288,491</u>
Going Concern	2		
Commitments	13		

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 21, 2018.

/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	
		2018	2017	2018	2017
<b>REVENUE</b>		\$ 2,675,947	\$ 1,676,738	\$ 6,181,345	\$ 4,639,139
Cost of goods sold	7	1,319,018	970,801	2,823,217	2,412,565
<b>GROSS PROFIT</b>		<u>1,356,929</u>	<u>705,937</u>	<u>3,358,128</u>	<u>2,226,574</u>
<b>OPERATING EXPENSES</b>					
Executive compensation		117,660	135,750	376,051	415,158
Salaries		389,029	305,131	956,385	1,006,120
Consulting fees		93,389	54,595	218,811	204,757
General and administrative		189,799	143,414	473,918	415,066
Research and development		5,510	1,376	23,043	11,933
Marketing		28,718	1,882	39,285	14,443
Occupancy		24,041	17,276	66,814	99,887
Professional fees		9,983	57,313	133,372	411,307
Stock based compensation	11	11,286	10,046	33,668	56,039
Insurance		101,991	89,222	302,084	278,872
Depreciation and amortization	8, 9	207,224	189,276	611,788	632,755
Interest		36,000	29,038	110,170	85,066
<b>TOTAL OPERATING EXPENSES</b>		<u>1,214,630</u>	<u>1,034,319</u>	<u>3,345,389</u>	<u>3,631,403</u>
<b>OPERATING INCOME (LOSS)</b>		<u>142,299</u>	<u>(328,382)</u>	<u>12,739</u>	<u>(1,404,829)</u>
Gain (loss) on sale of property and equipment		(2,566)	—	8,356	62,563
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)</b>		<u>\$ 139,733</u>	<u>\$ (328,382)</u>	<u>\$ 21,095</u>	<u>\$ (1,342,266)</u>
Basic and diluted income (loss) per share	14	\$ 0.01	\$ (0.01)	\$ 0.01	\$ (0.04)

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		Contributed surplus	Deficit	Total
		Shares Number	Amount			
December 31, 2016		33,248,674	\$19,358,978	\$516,768	\$(16,405,653)	\$3,470,093
Private placement, April 2017		1,670,000	225,209	–	–	225,209
Share issuance costs		–	(1,763)	–	–	(1,763)
Stock based compensation		–	–	56,039	–	56,039
Total comprehensive income (loss)		–	–	–	(1,342,266)	(1,342,266)
September 30, 2017		34,918,674	\$19,582,424	\$572,807	\$(17,747,919)	\$2,407,312
December 31, 2017	11	36,168,674	\$19,706,040	\$591,347	\$(18,646,004)	\$1,651,383
Private placement, February 2018	11	9,265,000	741,200	–	–	741,200
Share issuance costs	11	–	(24,267)	–	–	(24,267)
Stock based compensation	11	–	–	33,668	–	33,668
Total comprehensive income (loss)		–	–	–	21,095	21,095
September 30, 2018		45,433,674	\$20,422,973	\$625,015	\$(18,624,909)	\$2,423,079

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	
		2018	2017	2018	2017
<b>OPERATING ACTIVITIES</b>					
Net income (loss)		\$ 139,733	\$ (328,382)	\$ 21,095	\$ (1,342,266)
Adjustments					
Depreciation and amortization	8, 9	207,224	189,276	611,788	632,755
Stock based compensation	11	11,286	10,046	33,668	56,039
Gain on sale of property and equipment		2,566	–	(8,356)	(62,563)
Loan interest (accrued)		36,000	29,038	108,000	83,037
Changes in working capital components					
Trade and other receivables		(201,606)	(38,854)	(994,034)	142,391
Prepaid expenses and deposits		(190,367)	(114,946)	55,716	21,944
Inventory		166,458	59,243	294,178	188,934
Trade and other payables	10, 12	235,994	(86,558)	51,662	(527,212)
Cash flows received from operating activities		407,288	(281,137)	173,717	(806,941)
<b>FINANCING ACTIVITIES</b>					
Repayment of amounts due to related parties	12	(7,500)	(7,500)	(22,500)	(10,000)
Issuance of common shares	11, 12	–	–	741,200	225,209
Share issuance costs	11, 12	–	–	(24,267)	(1,763)
Advance from shareholder		–	350,000	–	600,000
Cash flows received from financing activities		(7,500)	342,500	694,433	813,446
<b>INVESTING ACTIVITIES</b>					
Additions to intangible assets	8	–	–	–	(81,321)
Proceeds from sale of property and equipment		10,445	–	21,518	106,012
Additions to property and equipment	9	(14,056)	19,021	(281,447)	(35,805)
Cash flows used in investing activities		(3,611)	19,021	(259,929)	(11,114)
Net change in cash		396,177	80,384	608,221	(4,609)
Cash, beginning of period		224,709	107,849	12,665	192,842
Cash, end of period		\$ 620,886	\$ 188,233	\$ 620,886	\$ 188,233

**Supplemental disclosure of cash flow information:**

Cash paid during the period for:

Interest	\$	–	\$	8,585	\$	14,207	\$	7,029
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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)

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(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 highly 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 21, 2018.

#### 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, 2017. The Company’s significant accounting policies as presented in Note 3 of the financial statements for the year ended December 31, 2017 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 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 using cash from operations and if required, 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.

#### 3. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

##### *Use of estimates and judgement*

The preparation of these condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of these 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.

**3. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS (continued)**

*Use of estimates and judgement (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 these condensed interim 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**

These condensed interim consolidated financial statements have been prepared 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 will continue to raise funds going forward if required to satisfy its obligations as they become due.

**(e) Estimation uncertainty disclosure for share based payments**

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 its share price over the expected term of the options 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.

**(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, 2018 and December 31, 2017, management's assessment of impairment is based on the following judgements:

- i) The intellectual rights are not expected to expire in the near term; and
- 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)

#### 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.

##### Trade Receivables

Description	September 30, 2018	December 31, 2017
Current	\$ 1,258,846	\$ 470,943
Past due 1-30 days	447,419	243,147
Past due 31-60 days	94,162	25,410
Over 60 days	5,098	71,991
Closing balance and maximum credit risk	\$ 1,805,525	\$ 811,491

##### 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, 2018 and December 31, 2017 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, 2018, the Company's working capital position was \$3,224,115 (December 31, 2017 - \$2,023,416). 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.

## AURORA SPINE CORPORATION

### Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

(US dollars)

#### 4. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

##### Liquidity risk (continued)

The following summarizes the maturity profile of the Company's financial liabilities:

Liability	Terms	September 30, 2018	December 31, 2017
Trade and other payables	Due within one year	\$1,786,770	\$1,735,108
Related party loans	Due within one to four years	1,987,500	1,902,000

##### Capital management

The Company's objective when managing capital, defined as its debt and 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, 2018 was \$2,423,079 (December 31, 2017 - \$1,651,383).

#### 5. RECENT ACCOUNTING PRONOUNCEMENTS

Certain pronouncements have been issued by the IASB or IFRIC (IFRS Interpretations Committee) that will be effective for the current and 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 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Company has adopted the new standard as of January 1, 2018.

The new guidance does not have a significant impact on the classification and measurement of its financial instruments for the following reasons:

- The Company does not currently hold any financial assets that would be accounted for differently under the new standard;
- The Company does not have any financial liabilities designated at fair value through profit or loss, which are the only liabilities impacted by the new standard; and
- The Company does not currently have any outstanding hedges that would require reassessment under the updated hedge accounting rules.

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. This applies to the Company's trade and other receivables. Our financial performance and disclosure are not materially affected by the application of the standard.

##### IFRS 15 Revenue from Contracts with Customers

IFRS 15 - Revenue from Contracts with Customers – This standard replaced IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Company has adopted the new standard as of January 1, 2018. Our financial performance and disclosure are not materially affected by the application of the standard.

**AURORA SPINE CORPORATION****Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)***(US dollars)***5. RECENT ACCOUNTING PRONOUNCEMENTS (continued)****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 remain largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Company is in the process of assessing the impact of the adoption of this standard on its financial statements.

**6. CASH**

	September 30, 2018	December 31, 2017
Cash at banks, and on hand	\$ 620,886	\$ 12,665

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

**7. INVENTORY**

The following comprises inventory:

	September 30, 2018	December 31, 2017
Spinal implants	\$ 726,526	\$ 793,635
TiNano PEEK implants	1,248,540	1,203,732
Biologics	150,156	160,820
WIP and sub-assembly	43,109	304,322
<b>Total</b>	<b>\$ 2,168,331</b>	<b>\$ 2,462,509</b>

The cost of goods sold during the three and nine months ended September 30, 2018 is \$1,319,018 and \$2,823,217 (three and nine months ended September 30, 2017 - \$970,801 and \$2,412,565).

**8. INTANGIBLE ASSETS**

The following comprises intangible assets:

	September 30, 2018	December 31, 2017
Opening balance	\$ 264,247	\$ 210,966
Acquisition costs	–	81,321
Amortization costs	(10,961)	(28,040)
<b>Ending balance</b>	<b>\$ 253,286</b>	<b>\$ 264,247</b>

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. During the three and nine months ended September 30, 2018, the Company had recognized \$3,654 and \$10,961 of amortization expense (three and nine months ended September 30, 2017 - \$4,049 and \$24,386). No impairment was recognized as of September 30, 2018 and December 31, 2017.

**AURORA SPINE CORPORATION**

**Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)**

(US dollars)

**9. PROPERTY AND EQUIPMENT**

Property and equipment as at September 30, 2018 are composed of the following:

	Trays and Instruments	Machinery and Equipment	Computer Equipment	Furniture and fixtures	Leaseholds	Total
<b>Cost</b>						
As at December 31, 2017	\$3,505,641	\$49,487	\$79,150	\$101,736	\$6,783	\$3,742,797
Additions	281,447	–	–	–	–	281,447
Disposals	(20,188)	–	–	(9,927)	–	(30,115)
As at September 30, 2018	3,766,900	49,487	79,150	91,809	6,783	3,994,129
<b>Accumulated depreciation</b>						
As at December 31, 2017	2,315,973	34,796	66,886	58,857	565	2,477,077
Disposals	(16,953)	–	–	–	–	(16,953)
Depreciation for the period	570,349	7,423	11,872	10,335	848	600,827
As at September 30, 2018	2,869,369	42,219	78,758	69,192	1,413	3,060,951
<b>Net book value</b>						
As at September 30, 2018	\$ 897,531	\$ 7,268	\$ 392	\$ 22,617	\$5,370	\$ 933,178

**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, 2018	December 31, 2017
Trade and other payables	\$ 1,786,770	\$ 1,735,108

**11. SHAREHOLDERS' EQUITY**

**[a] Share capital**

The number of authorized common shares without par value and preferred non voting shares of share capital is unlimited.

The continuity of share capital is as follows:

	Common Shares	
	#	\$
<b>Balance, December 31, 2017</b>	36,168,674	19,706,040
Private placement, February 6, 2018 <sup>[i]</sup>	9,265,000	741,200
Share issuance costs, February 6, 2018 <sup>[i]</sup>	–	(24,267)
<b>Balance, September 30, 2018</b>	45,433,674	20,422,973

[i] On February 6, 2018, the Company completed a private placement of common shares and issued 9,265,000 common shares at a price of CDN\$0.10 (US\$0.08) per share for aggregate gross proceeds of CDN\$926,500 (US\$741,200). Share issuance costs totaled CDN\$30,334 (US\$24,267). A director of the Company subscribed for an aggregate of 1,800,000 common shares for cash consideration of CDN\$180,000 (US\$144,000).

**11. SHAREHOLDERS' EQUITY** (continued)**[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, 2018, 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, 2017	2,387,250	\$0.44	7.04
Issued <sup>(a)(b)(c)</sup>	236,250	\$0.13	7.63
Forfeited	(305,832)	N/A	N/A
Balance, September 30, 2018	2,317,668	\$0.21	6.06
Exercisable, September 30, 2018	1,109,085	\$0.24	7.08

- (a) During the quarter ended March 31, 2018, the Company granted a total of 86,250 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 \$4,704 using the Black-Scholes option pricing model. The stock compensation expensed in the three months ended March 31, 2018 was \$13,816 which relates to current and prior period grants. The remaining expense will be recognized over the balance of the vesting periods.
- (b) During the quarter ended June 30, 2018, the Company granted a total of 106,250 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 \$4,243 using the Black-Scholes option pricing model. The stock compensation expensed during the three months ended June 30, 2018 was \$8,566 which relates to current and prior period grants. The remaining expense will be recognized over the balance of the vesting periods.
- (c) During the quarter ended September 30, 2018, the Company granted a total of 43,750 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 \$2,498 using the Black-Scholes option pricing model. The stock compensation expensed during the three months ended September 30, 2018 was \$11,286 which relates to current and prior period grants. The remaining expense will be recognized over the balance of the vesting periods.

## AURORA SPINE CORPORATION

### Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

(US dollars)

#### 11. SHAREHOLDERS' EQUITY (continued)

##### [b] Stock options (continued)

The fair value of the options granted during the nine months ended September 30, 2018 was determined using the Black-Scholes option pricing model using the following assumptions:

	September 30, 2018
Average risk-free interest rate	2.22%
Expected weighted volatility	93%
Expected life	8 years
Expected dividend yield	Nil
Average share price at date of grant	\$0.13
Average exercise price at date of grant	\$0.13
Average forfeiture rate	60%

#### 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 the chief legal and 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, 2018, trade payable balances to related parties totaled \$Nil (2017 - \$22,500) and there is an outstanding loan payable to a director of the Company of \$110,000 (2017 - \$140,000) 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. As at September 30, 2018, the accrued interest related to the loan is \$277,500 (2017 - \$133,500). The note is secured by the tangible and intangible assets of the Company

The remuneration of key management of the Company for the nine months ended September 30, 2018 is \$393,801 which includes \$17,750 stock based compensation (nine months ended September 30, 2017 - \$454,536 which includes \$39,378 stock based compensation).

On January 11, 2018, a director of the Company advanced an unsecured, non-convertible loan of US\$125,000 to the Company, bearing interest at the rate of 9% per annum. The loan was repaid in full on March 27, 2018 from the proceeds of the February 2018 private placement.

On February 6, 2018, the Company completed a private placement of common shares and issued 9,265,000 common shares at a price of CDN\$0.10 (US\$0.08) per share for aggregate gross proceeds of CDN\$926,500 (US\$741,200). The Company paid commissions equal to CDN\$30,334 (US\$24,267). A director of the Company subscribed for an aggregate of 1,800,000 common shares for cash consideration of CDN\$180,000 (US\$144,000).

#### 13. COMMITMENTS

In December 2012, Aurora Spine LLC entered into two separate long term 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 Body Fusion Device product, payable thirty days after the end of each calendar

**AURORA SPINE CORPORATION****Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)***(US dollars)***13. COMMITMENTS** (continued)

quarter, for the prior calendar quarter. The royalty shall be paid for six years commencing July 2014 and terminating July 2020.

In November 2013, the Company entered into an asset agreement whereby the Company has agreed to pay a royalty payment of 5% for all sales of the Discovery PEEK cervical implants quarterly, within 30 days of the end of each calendar quarter for as long as the Company sells the implants. Gross sales are defined as total selling price, excluding taxes.

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 September 30, 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 13 of the lease. Minimum lease commitments under non-cancellable operating lease are as follows:

	September 30, 2018	September 30, 2017
Less than 1 year	\$ 125,494	\$ 152,713
Between 1 year and 5 years	374,963	429,513
Thereafter	–	70,944
<b>Total</b>	<b>\$ 500,457</b>	<b>\$ 653,170</b>

**14. BASIC AND DILUTED INCOME (LOSS) PER SHARE**

	Nine-month period ended September 30, 2018	Nine-month period ended September 30, 2017
Net income (loss)	\$ 21,095	\$ (1,342,266)
Weighted average common shares outstanding	44,211,916	34,339,659
<b>Basic and diluted income (loss) per share</b>	<b>\$ 0.01</b>	<b>\$ (0.04)</b>