

Aurora Spine Corporation
Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

Independent Auditors' Report

To the Shareholders of Aurora Spine Corporation:

We have audited the accompanying consolidated financial statements of Aurora Spine Corporation and its subsidiaries, (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes assessing the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and 2016, in accordance with International Financial Reporting Standards.

Emphasis of Matters

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that the Company incurred a net loss of \$2,240,351 during the year ended December 31, 2017 and as of that date, the Company had accumulated deficit of \$18,646,004. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Toronto, Ontario
April 27, 2018

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

MNP

AURORA SPINE CORPORATION
Consolidated Statements of Financial Position
As at December 31, 2017 and 2016

(US dollars)

	Notes	2017	2016
ASSETS			
Current			
Cash	6	\$ 12,665	\$ 192,842
Trade and other receivables	4	811,491	1,228,553
Prepaid expenses and deposits		471,859	318,386
Inventory	7	2,462,509	2,996,940
Total current assets		<u>3,758,524</u>	<u>4,736,721</u>
Non-current			
Intangible assets	8	264,247	210,966
Property and equipment	9	1,265,720	2,095,565
Total non-current assets		<u>1,529,967</u>	<u>2,306,531</u>
Total assets		<u>\$ 5,288,491</u>	<u>\$ 7,043,252</u>
LIABILITIES			
Current			
Trade and other payables	10, 12	\$ 1,735,108	\$ 2,400,196
Total current liabilities		<u>1,735,108</u>	<u>2,400,196</u>
Non-current			
Due to related parties	12	1,902,000	1,172,963
Total non-current liabilities		<u>1,902,000</u>	<u>1,172,963</u>
Total liabilities		<u>3,637,108</u>	<u>3,573,159</u>
SHAREHOLDERS' EQUITY			
Common shares	11	19,706,040	19,358,978
Contributed surplus		591,347	516,768
Deficit		(18,646,004)	(16,405,653)
Total shareholders' equity		<u>1,651,383</u>	<u>3,470,093</u>
Total liabilities and shareholders' equity		<u>\$ 5,288,491</u>	<u>\$ 7,043,252</u>
Going Concern	2		
Commitments	13		
Subsequent Events	16		

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

These consolidated financial statements were approved by the Board of Directors on April 27, 2018.

/s/ Trent Northcutt
Director

/s/ David Rosenkrantz
Director

AURORA SPINE CORPORATION
Consolidated Statements of Comprehensive Loss
Years ended December 31, 2017 and 2016

(US dollars)

	Notes	December 31, 2017	December 31, 2016
SALES		\$ 5,989,114	\$ 6,756,475
Cost of goods sold		3,429,885	3,372,630
GROSS PROFIT		<u>2,559,229</u>	<u>3,383,845</u>
OPERATING EXPENSES			
Executive compensation	12	541,253	530,915
Salaries		1,276,406	1,283,986
Consulting fees		227,403	274,267
General and administrative		675,195	727,996
Research and development		21,055	40,412
Bad debt		157,940	79,383
Marketing		31,859	91,430
Occupancy		123,056	254,160
Professional fees		412,599	578,032
Stock based compensation	11	74,579	69,527
Insurance		372,767	310,051
Depreciation and amortization	8, 9	826,165	762,004
Interest		144,651	60,933
TOTAL OPERATING EXPENSES		<u>4,884,928</u>	<u>5,063,096</u>
OPERATING LOSS		<u>(2,325,699)</u>	<u>(1,679,251)</u>
Gain on sale of property and equipment	9	85,348	—
NET LOSS AND COMPREHENSIVE LOSS		<u>\$ (2,240,351)</u>	<u>\$ (1,679,251)</u>
Basic and diluted loss per share	14	<u>\$ (0.06)</u>	<u>\$ (0.05)</u>

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

AURORA SPINE CORPORATION
Consolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 2017 and 2016

(US dollars)

	Notes	Common shares		Contributed surplus	Deficit	Total
		Shares Number	Amount			
January 1, 2016		30,723,674	\$18,972,153	\$ 447,241	\$(14,726,402)	\$4,692,992
May 31, 2016, private placement	11	2,525,000	394,179	–	–	394,179
Share issuance costs	11	–	(7,354)	–	–	(7,354)
Stock based compensation	11	–	–	69,527	–	69,527
Total comprehensive loss		–	–	–	(1,679,251)	(1,679,251)
December 31, 2016		33,248,674	\$19,358,978	\$ 516,768	\$(16,405,653)	\$3,470,093
April 6, 2017, private placement	11	1,670,000	225,209	–	–	225,209
October 18, 2017, private placement	11	1,250,000	125,000	–	–	125,000
Share issuance costs	11	–	(3,147)	–	–	(3,147)
Stock based compensation	11	–	–	74,579	–	74,579
Total comprehensive loss		–	–	–	(2,240,351)	(2,240,351)
December 31, 2017		36,168,674	\$19,706,040	\$ 591,347	\$(18,646,004)	\$1,651,383

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

AURORA SPINE CORPORATION
Consolidated Statements of Cash Flows
Years ended December 31, 2017 and 2016

(US dollars)

	Notes	December 31, 2017	December 31, 2016
OPERATING ACTIVITIES			
Net loss		\$ (2,240,351)	\$ (1,679,251)
Adjustments			
Depreciation and amortization	8, 9	826,165	762,004
Stock based compensation	11	74,579	69,527
Gain on sale of property and equipment		(85,348)	–
Loan interest		146,537	45,000
Changes in working capital components			
Trade and other receivables		417,062	(232,388)
Prepaid expenses and deposits		(153,473)	(113,043)
Inventory	7	534,431	229,808
Trade and other payables	10	(665,088)	(733,909)
Cash flows used in operating activities		<u>(1,145,486)</u>	<u>(1,652,252)</u>
FINANCING ACTIVITIES			
Repayment of amounts due to related parties	12	(17,500)	(30,000)
Issuance of common shares	11	350,209	394,179
Share issuance costs	11	(3,147)	(7,354)
Advance from shareholder	12	600,000	1,000,000
Cash flows received from financing activities		<u>929,562</u>	<u>1,356,825</u>
INVESTING ACTIVITIES			
Additions to intangible assets	8	(81,321)	–
Proceeds from sale of property and equipment		173,155	–
Additions to property and equipment	9	(56,087)	(91,362)
Cash flows used in investing activities		<u>35,747</u>	<u>(91,362)</u>
Net change in cash		(180,177)	(386,789)
Cash, beginning of year		<u>192,842</u>	<u>579,631</u>
Cash, end of year		<u>\$ 12,665</u>	<u>\$ 192,842</u>

Supplemental disclosure of cash flow information:

Cash paid during the year for:

Interest	\$ 20,614	\$ 8,272
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The accompanying notes are an integral part of these consolidated financial statements.

AURORA SPINE CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2017 and 2016

(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 consolidated financial statements were authorized for issuance by the Board of Directors on April 27, 2018.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and on the basis of the going concern assumption, meaning that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

Going concern

These 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. In view of the current year’s loss of \$2,240,351 (2016 - \$1,679,251) and accumulated deficit of \$18,646,004 as at December 31, 2017; these conditions indicate material uncertainty that casts significant doubt as to the Company’s ability to continue as a going concern and is dependent upon further financing and ultimately, the attainment of profitable operations. These 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 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 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 consolidated financial statements in conformity of IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the 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.

(US dollars)

2. BASIS OF PREPARATION (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 the consolidated financial statements.

Significant assumptions about the future, and other sources of estimation uncertainty that management has made at the date of the 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 consolidated financial statements have been prepared in accordance with IFRS 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 December 31, 2017 and 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.

AURORA SPINE CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2017 and 2016

(US dollars)

2. BASIS OF PREPARATION (continued)

(g) Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

(h) 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies applied in the preparation of these 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 those 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.

AURORA SPINE CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2017 and 2016

(US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Property and equipment (continued)

Depreciation is recognized in statements of 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 December 31, 2017 and 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. Intellectual property and patents are amortized over 20 years unless the economic life is shorter. No amortization expense was recognized through December 31, 2016. During the year ended 2017, the Company recorded \$28,040 of amortization expense. As at December 31, 2017 and 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.

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 assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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.

AURORA SPINE CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2017 and 2016

(US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 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.

(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

AURORA SPINE CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2017 and 2016

(US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial instruments (continued)

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 and other receivables, trade and other payables and related party loans.

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 December 31, 2017:

Cash	Fair value through profit or loss
Trade and other receivables	Loans and receivables
Trade and other payables	Financial liabilities
Related party loans	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 in 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.

(m) Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

AURORA SPINE CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2017 and 2016

(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, as well as a bank in Europe. Management expects the credit risk to be minimal.

[ii] Trade and other 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	December 31, 2017	December 31, 2016
Current	\$ 470,943	\$ 293,120
Past due 1-30 days	243,147	517,659
Past due 31-60 days	25,410	131,563
Over 60 days	71,991	286,211
Closing Balance	\$ 811,491	\$ 1,228,553
Maximum Credit Risk	\$ 811,491	\$ 1,228,553

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 December 31, 2017 and 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 has no third party borrowings bearing interest and 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. The Company's working capital position was \$2,023,416 (December 31, 2016 - 2,336,525). The Company's continuing operations are dependent upon its ability to secure additional debt and 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.

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4. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

The following summarizes the maturity profile of the Company's financial liabilities as at December 31:

Liquidity risk (continued)

Liability	Terms	2017	2016
Trade and other payables	Due within one year	\$1,735,108	\$2,400,196
Related party loans	Due within one to five years	\$1,902,000	\$1,172,963

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 December 31, 2017 was \$1,651,383 (2016 - \$3,470,093).

5. RECENT 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 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 will adopt the new standard on January 1, 2018.

The Company does not expect the new guidance to 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 will apply to the Company's trade and other receivables. We do not expect our financial performance or disclosure to be materially affected by the application of the standard.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 - Revenue from Contracts with Customers – This standard will replace 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 will adopt the new standard on January 1, 2018. We do not expect our financial performance or disclosure to be materially affected by the application of the standard.

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5. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

Future 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

	December 31, 2017	December 31, 2016
Cash at banks, and on hand	\$12,665	\$192,842

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

7. INVENTORY

The following comprises inventory:

	December 31, 2017	December 31, 2016
Spinal implants	\$ 793,635	\$ 955,212
TiNano PEEK implants	1,203,732	1,619,374
Biologics	160,820	189,025
WIP and sub-assembly	304,322	233,329
Total	\$2,462,509	\$2,996,940

The amounts of inventory expensed during the year ended December 31, 2017 is \$1,797,403 (2016 - \$1,291,888). During the years ended December 31, 2017 and 2016, the Company did not record any inventory impairment.

8. INTANGIBLE ASSETS

The following comprises intangible assets:

	December 31, 2017	December 31, 2016
Intangible Assets (Opening balance)	\$210,966	\$210,966
Acquisition costs	81,321	–
Amortization costs	(28,040)	–
Intangible Assets (Ending balance)	\$264,247	\$210,966

The Company capitalized 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. No impairment was recognized as of December 31, 2017 and 2016.

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9. PROPERTY AND EQUIPMENT

Property and equipment as at December 31, 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	49,304	–	–	–	–	6,783	56,087
Disposals	(183,288)	–	–	–	(49,763)	(75,618)	(308,669)
As at December 31, 2017	3,505,641	49,487	79,150	101,736	–	6,783	3,742,797
Accumulated							
As at December 31, 2016	1,686,027	24,899	51,056	44,614	49,763	43,455	1,899,814
Disposals	(95,481)	–	–	–	(49,763)	(75,618)	(220,862)
Depreciation for the year	725,427	9,897	15,830	14,243	–	32,728	798,125
As at December 31, 2017	2,315,973	34,796	66,886	58,857	–	565	2,477,077
Net book value							
As at December 31, 2017	\$1,189,668	\$14,691	\$12,264	\$ 42,879	\$ –	\$ 6,218	\$1,265,720

During the year ended December 31, 2017, trays and instruments with a net book value of \$57,521 were sold for proceeds of \$173,155. The Company also wrote off trays and instrument with a net book value of \$30,286.

Property and equipment as at December 31, 2016 are composed of the following:

	Trays and Instruments	Machinery and Equipment	Computer Equipment	Furniture and Fixtures	Software	Leaseholds	Total
Cost							
As at December 31, 2015	\$3,548,263	\$49,487	\$79,150	\$101,736	\$49,763	\$75,618	\$3,904,017
Additions	91,362	–	–	–	–	–	91,362
As at December 31, 2016	3,639,625	49,487	79,150	101,736	49,763	75,618	3,995,379
Accumulated depreciation							
As at December 31, 2015	992,468	15,002	35,226	29,895	36,888	28,331	1,137,810
Depreciation for the year	693,559	9,897	15,830	14,719	12,875	15,124	762,004
As at December 31, 2016	1,686,027	24,899	51,056	44,614	49,763	43,455	1,899,814
Net book value							
As at December 31, 2016	\$1,953,598	\$24,588	\$28,094	\$ 57,122	\$ –	\$32,163	\$2,095,565

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:

	December 31, 2017	December 31, 2016
Trade and other payables	\$ 1,735,108	\$ 2,400,196

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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	
	#	\$
January 1, 2016	30,723,674	18,972,153
Private placement [i]	2,525,000	394,179
Share issuance costs [i]	–	(7,354)
December 31, 2016	33,248,674	19,358,978
Private placement [ii]	1,670,000	225,209
Share issuance costs [ii]	–	(1,763)
Private placement [iii]	1,250,000	125,000
Share issuance costs [iii]	–	(1,384)
December 31, 2017	36,168,674	19,706,040

- i) On May 31, 2016, The Company completed a private placement of common shares, pursuant to which the Company issued 2,525,000 common shares at a price of CDN\$0.20 (US\$0.16) per share for aggregate gross proceeds of CDN\$505,000 (US\$394,179). The Company incurred share issuance costs of US\$7,354.
- ii) 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\$112,605).
- iii) 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).

(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.

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11. SHAREHOLDERS' EQUITY (continued)

(b) Stock options (continued)

As at December 31, 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, 2015	678,500	\$1.03	6.92
Issued ^(a)	1,377,500	0.22	7.43
Forfeited	(95,000)	N/A	N/A
Balance, December 31, 2016	1,961,000	0.44	7.04
Issued ^(b)	1,014,750	0.17	7.12
Forfeited	(588,500)	N/A	N/A
Balance, December 31, 2017	2,387,250	0.22	6.74
Exercisable, December 31, 2017	505,833	\$0.31	6.23

- (a) During the year ended December 31, 2016, the Company granted a total of 1,377,500 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 \$157,764 using the Black-Scholes option pricing model, with \$69,527 expensed related to current and prior period grants. The remaining expense will be recognized over the balance of the vesting periods.
- (b) During the year ended December 31, 2017, the Company granted a total of 1,014,750 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 \$74,898 using the Black-Scholes option pricing model, with \$74,579 expensed related to current and prior period grants. The remaining expense will be recognized over the balance of the vesting periods.

	2017	2016
Risk-free interest rate	1.37 - 1.99%	0.98 - 1.04%
Expected average volatility	94%	92%
Expected life	8 years	8 years
Expected dividend yield	Nil	Nil
Share price at date of grant	\$0.095 - \$0.19	\$0.13 - \$0.37
Exercise price at date of grant	\$0.095 - \$0.20	\$0.13 - \$0.37
Forfeiture rate	46%	35%

12. RELATED PARTY TRANSACTIONS

The Company's related parties include key management and personnel that have 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 December 31, 2017, trade payable balances to related parties total \$18,500 (2016 - \$11,148) and there is an outstanding loan payable to a director of the Company of \$132,500 (2016 - \$127,963) 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 with a

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12. RELATED PARTY TRANSACTIONS (continued)

principal amount of \$1,600,000 (2016 - \$1,000,000) which bears an interest rate of 9% per annum and is due on or before June 2021. As at December 31, 2017, the accrued interest related to the loan is \$169,500 (2016 – \$45,000). The note is secured by the tangible and intangible assets of the Company.

The following comprises the remuneration of key management of the Company:

	2017	2016
Short-term	\$ 541,253	\$ 530,915
Share based payments	52,504	38,661
Total	\$ 593,757	\$ 569,576

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 and is secured by the tangible and intangible assets of the Company. 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.

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\$ 112,605).

On October 18, 2017, the Company completed a non-brokered private placement of common shares (the "October 2017 Offering"). Pursuant to the October 2017 Offering, 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).

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 Body 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 July 2014.

In November 2013, the Company purchased inventory of an Intervertebral Cervical Fusion Device with Bone Graft for \$174,000 and the related FDA 510(k) Clearance for \$126,000.

The Company paid an initial down payment of \$10,000 in January 2014. Pursuant to the asset purchase agreement, commencing in December 2014 the Company was required to pay and is required to continue to pay the seller (a) \$10,000 per month or (b) 16% of gross sales of the DISCOVERY cervical implants for the prior calendar month, whichever is greater. These payments will continue until the Company has paid the seller the aggregate sum of \$200,000. During the year, we renegotiated the contract agreement with the third party. The agreement requires the Company to pay a royalty payment of 5% for all sales of the Discovery PEEK cervical implants for as long as the Company sells the implants. As such, the deferred liability previously recorded relating to the Discovery PEEK cervical implant inventory and related intellectual property was forgiven. The resulting balance for the deferred liability is \$Nil.

The Company will continue to pay a royalty of 5% to the seller quarterly, within 30 days of the end of each calendar quarter. Gross sales are defined as total selling price, excluding taxes.

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13. COMMITMENTS (continued)

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

	December 31, 2017	December 31, 2016
Less than 1 year	\$ 153,402	\$ 322,125
Between 1 year and 5 years	417,480	288,750
Thereafter	44,340	–
Total	\$ 615,222	\$ 610,875

14. BASIC AND DILUTED LOSS PER SHARE

The calculation of basic and diluted income (loss) per share is based on the income (loss) for the period divided by the weighted average number of shares in circulation during the period. In calculating the diluted income per share, potentially dilutive shares such as options and warrants have a negligible effect. In calculating the diluted loss per share, potentially dilutive shares such as options and warrants have not been included as they would have the effect of decreasing the loss per share and they would, therefore be antidilutive. Details of options and warrants that could potentially dilute earnings per share in the future are given in Note 11.

	December 31, 2017	December 31, 2016
Net loss	\$ (2,240,351)	\$ (1,679,251)
Weighted average common shares outstanding	35,175,523	32,217,921
Basic and diluted loss per share	\$ (0.06)	\$ (0.05)

15. INCOME TAXES

The reconciliation of the combined Canadian Federal and Provincial income tax rate of 26.5% (2016 – 26.5%) to the effective tax rate is as follows:

	December 31, 2017	December 31, 2016
Net loss before recovery of income taxes	\$ 2,240,351	\$ 1,679,250
Expected income tax recovery	(593,690)	(445,001)
Difference in foreign tax rates	(284,610)	(240,565)
Tax rate changes and other adjustments	1,902,270	(604,484)
Share based payment and non-deductible expenses	33,280	40,061
Prior year true-up	107,090	(136,678)
Other	–	(15,158)
Change in deferred tax asset not recognized	(1,164,340)	1,401,825
Income tax (recovery) expense	\$ –	\$ –

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15. INCOME TAXES (continued)

	December 31, 2017	December 31, 2016
Deferred tax assets		
Net operating loss - USA	178,693	8,987
Deferred tax liabilities		
Property, plant and equipment	(176,352)	
Goodwill	(2,341)	(8,987)
Net deferred tax asset	\$ -	\$ -

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	December 31 2017	December 31 2016
Share issuance costs	\$ 235,580	\$ 440,532
Fixed Assets	-	56,875
Non-capital losses carried forward - Canada	895,510	687,416
Non-capital losses carried forward - US	15,938,220	14,091,109
Non-capital losses carried forward - UK	361,020	345,699
Other temporary differences	52,380	-
	\$17,482,710	\$15,621,631

The Company has not recorded deferred tax assets related to the temporary differences noted above as it is not probable that future taxable income will be available against which these differences can be utilized. While the Company generated its first revenues in September 2013, there remains uncertainty regarding the revenue growth and timing of future taxable income available against which these differences can be utilized. Share issue costs will be fully amortized in 2021. There are non-capital loss carry forwards available for the Company which will expire as follows:

Non- Capital Losses				
Year of Loss	Expiry	Canada	United States	Total
2013	2033	\$ 29,160	\$ 2,788,500	\$ 2,817,660
2014	2034	244,800	7,426,530	7,671,330
2015	2035	206,000	2,737,330	2,943,330
2016	2036	207,470	1,818,250	2,025,720
2017	2037	208,100	1,806,180	2,014,280
		\$ 895,530	\$ 16,576,790	\$ 17,472,320

Non-Capital Losses	
Year of Loss	UK
2014	\$ 189,070
2015	125,800
2016	46,150
	\$ 361,020

The UK losses of \$361,020 can be carryforward indefinitely.

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U.S. Income Tax Status

U.S. federal tax legislation was enacted in 2004 to address perceived U.S. tax concerns in “corporate inversion” transactions. A “corporate inversion” generally occurs when a non-U.S. corporation acquires “substantially all” of the equity interests in, or the assets of, a U.S. corporation or partnership, if, after the acquisition, former equity holders of the U.S. corporation or partnership own a specified level of stock in the non-U.S. corporation. The tax consequences of these rules depend upon the percentage identity of stock ownership that results. Generally, in the “80-percent identity” transactions, i.e. former equity holders of the U.S. corporation owns 80% or more of the equity of the non-U.S. acquiring entity (excluding certain equity interests), the tax benefits of the inversion are limited by treating the non-U.S. acquiring entity as a domestic entity for U.S. tax purposes.

Management is of the view that a corporate inversion has resulted from the IPO transaction completed in 2013. Management has determined that the Company is subject to the “80 percent” identity with respect to the transactions undertaken.

16. SUBSEQUENT EVENTS

Advances From Shareholder

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 Offering (see *Private Placement* below).

Private Placement

On February 6, 2018, the Company completed a private placement of common shares (the “February 2018 Offering”). Pursuant to the February 2018 Offering, the Company 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).

In connection with this Offering, the Company paid aggregate cash commissions equal to CDN\$29,490 (US\$23,677). 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). The net proceeds of the Offering will be used for general working capital purposes as well as to repay a USD\$125,000 loan advanced by a director earlier in 2018 (see *Advances From Shareholder* above).