

AURORA SPINE CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2019

(UNAUDITED)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not audited these financial statements 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, 2019	December 31, 2018
ASSETS			
Current			
Cash	5	\$ 447,750	\$ 856,504
Trade and other receivables	3	2,025,777	1,584,269
Prepaid expenses and deposits		148,164	219,301
Inventory	6	2,534,121	2,562,957
Total current assets		5,155,812	5,223,031
Non-current			
Intangible assets	7	842,569	853,529
Property and equipment	4, 8	743,721	766,602
Total non-current assets		1,586,290	1,620,131
Total assets		\$ 6,742,102	\$ 6,843,162
LIABILITIES			
Current			
Trade and other payables	9, 11	\$ 1,876,693	\$ 1,868,960
Short-term lease liability	3, 4	124,890	–
Total current liabilities		2,001,583	1,868,960
Non-current			
Due to related parties	11	2,101,500	2,016,000
Long-term lease liability	3, 4	309,207	–
Total non-current liabilities		2,410,707	2,016,000
Total liabilities		4,412,290	3,884,960
SHAREHOLDERS' EQUITY			
Common shares	10	20,666,158	20,661,153
Warrants		365,716	365,716
Contributed surplus		712,612	645,535
Deficit		(19,414,674)	(18,714,202)
Total shareholders' equity		2,329,812	2,958,202
Total liabilities and shareholders' equity		\$ 6,742,102	\$ 6,843,162
Commitments	12		

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, 2019.

/s/ Trent Northcutt
Director

/s/ David Rosenkrantz
Director

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

	Notes	Three-month period ended September 30		Nine-month period ended September 30	
		2019	2018	2019	2018
REVENUE		\$ 2,530,602	\$ 2,675,947	\$ 8,520,070	\$ 6,181,345
Cost of goods sold	6	1,518,986	1,319,018	5,054,872	2,823,217
GROSS PROFIT		1,011,616	1,356,929	3,465,198	3,358,128
OPERATING EXPENSES					
Executive compensation	11	110,753	117,660	365,339	376,051
Salaries		324,206	389,029	1,064,165	956,385
Consulting fees		118,204	93,389	322,919	218,811
General and administrative		293,572	189,799	696,736	473,918
Research and development		22,462	5,510	163,700	23,043
Marketing		138,510	28,718	141,950	39,285
Occupancy		–	24,041	–	66,814
Professional fees		3,325	9,983	130,024	133,372
Stock based compensation	10	22,678	11,286	67,077	33,668
Insurance		116,773	101,991	350,871	302,084
Depreciation and amortization	7, 8	208,152	207,224	613,256	611,788
Depreciation of right-of-use asset	4, 8	28,093	–	84,280	–
Interest, lease liability	4	6,287	–	20,374	–
Interest, other		36,000	36,000	110,830	110,170
TOTAL OPERATING EXPENSES		1,429,015	1,214,630	4,131,521	3,345,389
OPERATING INCOME (LOSS)		(417,399)	142,299	(666,323)	12,739
Gain (loss) on sale of property and equipment	8	–	(2,566)	(782)	8,356
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)		\$ (417,399)	\$ 139,733	\$ (667,105)	\$ 21,095
Basic and diluted income (loss) per share	13	\$ (0.01)	\$ 0.00	\$ (0.01)	\$ 0.00

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		Warrants	Contributed surplus	Deficit	Total
		Share Number	Amount				
Balance, December 31, 2017		36,168,674	\$19,706,040	\$ –	\$ 591,347	\$(18,646,004)	\$1,651,383
February 6, 2018, private placement		9,265,000	741,200	–	–	–	741,200
Share issuance costs		–	(24,267)	–	–	–	(24,267)
Stock based compensation		–	–	–	33,668	–	33,668
Total comprehensive loss		–	–	–	–	21,095	21,095
Balance, September 30, 2018		45,433,674	\$20,422,973	\$ –	\$ 625,015	\$(18,624,909)	\$2,423,079
Balance, December 31, 2018	10	46,433,674	\$20,661,153	\$365,716	\$645,535	\$(18,714,202)	\$2,958,202
July 1, 2019, stock options exercised		44,070	5,005	–	–	–	5,005
IFRS adjustment	4	–	–	–	–	(33,367)	(33,367)
Stock based compensation	10	–	–	–	67,077	–	67,077
Total comprehensive loss		–	–	–	–	(667,105)	(667,105)
Balance, September 30, 2019		46,477,744	\$20,666,158	\$365,716	\$712,612	\$(19,414,674)	\$2,329,812

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	
		2019	2018	2019	2018
OPERATING ACTIVITIES					
Net income (loss)		\$ (417,399)	\$ 139,733	\$ (667,105)	\$ 21,095
Adjustments					
Depreciation and amortization	7, 8	208,152	207,224	613,256	611,788
Depreciation of right-of-use asset: Building	8	28,093	–	84,280	–
Interest expense on lease liability	4	6,287	–	20,374	–
Stock based compensation	10	22,678	11,286	67,077	33,668
(Gain) loss on sale of property and equipment		–	2,566	782	(8,356)
Loan interest		36,000	36,000	108,000	108,000
Changes in working capital components					
Trade and other receivables		349,309	(201,606)	(441,508)	(994,034)
Prepaid expenses and deposits		92,350	(190,367)	71,137	55,716
Inventory		46,709	166,458	28,836	294,178
Trade and other payables	9, 11	(261,459)	235,994	7,733	51,662
Cash flows from (used in) operating activities		110,720	407,288	(107,138)	173,717
FINANCING ACTIVITIES					
Repayment of amounts due to related parties	11	(7,500)	(7,500)	(22,500)	(22,500)
Principal portion paid on lease liability	4	(26,105)	–	(76,860)	–
Interest paid on lease liability	4	(6,287)	–	(20,374)	–
Issuance of common shares		5,005	–	5,005	741,200
Share issuance costs		–	–	–	(24,267)
Cash flows from (used in) financing activities		(34,887)	(7,500)	(114,729)	694,433
INVESTING ACTIVITIES					
Proceeds from sale of property and equipment		–	10,445	2,844	21,518
Additions to property and equipment	8	(17,641)	(14,056)	(189,731)	(281,447)
Cash flows from (used in) investing activities		(17,641)	(3,611)	(186,887)	(259,929)
Net change in cash		58,192	396,177	(408,754)	608,221
Cash, beginning of period		389,558	224,709	856,504	12,665
Cash, end of period		\$ 447,750	\$ 620,886	\$ 447,750	\$ 620,886

Supplemental disclosure of cash flow information:

Cash paid during the period for:

Interest	\$	–	\$	–	\$	(2,830)	\$	(14,207)
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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)

(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, 2019.

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, 2018. The Company’s significant accounting policies as presented in Note 3 of the financial statements for the year ended December 31, 2018 have been consistently applied in the preparation of these condensed interim consolidated financial statements.

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. 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 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.

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.

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.

2. BASIS OF PREPARATION (continued)

Use of estimates and judgement (continued)

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 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. 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 if another assessment 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.

3. 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.

AURORA SPINE CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

(US dollars)

3. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

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, 2019	December 31, 2018
Current	\$ 1,195,893	\$ 1,048,369
Past due 1-30 days	458,840	510,690
Past due 31-60 days	267,066	18,570
Over 60 days	103,978	6,640
Closing balance and maximum credit risk	\$ 2,025,777	\$ 1,584,269

The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. The loss allowance provision is based on the Company's historical collection and loss experience and incorporates forward-looking factors, where appropriate.

Individual receivables which are known to be uncollectible are also written off by reducing the carrying amount directly. Other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred, but not yet identified. The Company maintains an allowance for doubtful accounts that represents its estimate of the uncollectible amounts based on specific losses estimated on individual exposures and provisions based on historical experience.

The Company considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganization; and/or
- default or delinquency in payments.

During the three months ended September 30, 2019, the lifetime expected loss provision for all trade receivables and contract assets is not material. The Company has however, provided for the possibility of a loss from one customer in the amount of \$140,310. Management is continuing to work with this customer in an effort to collect the amount outstanding.

The provision matrix below shows the expected loss related to the customer mentioned above at each aging category.

	Current	Aged 1-30 days past due	Aged 31-60 days past due	Aged > 60 days past due
Gross carrying amount	\$1,200,893	\$481,240	\$364,976	\$118,978
Loss allowance provision, end of the period	\$5,000	\$22,400	\$97,910	\$15,000

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, 2019

AURORA SPINE CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

(US dollars)

3. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

Foreign currency risk (continued)

and December 31, 2018 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. As at September 30, 2019, the Company's working capital position was \$3,154,229 (December 31, 2018 - \$3,354,071). The Company's continuing operations are dependent upon its ability to secure additional equity capital, divest assets or generate cash flow from operations in the future, none of which are assured. There can be no assurances that the Company's activities will be successful or that sufficient funds can be raised in a timely manner.

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

Liability	Terms	September 30, 2019	December 31, 2018
Trade and other payables	Due within one year	\$ 1,876,693	\$ 1,868,960
Short-term lease liability	Due within one year	\$ 124,890	—
Related party loans	Due within one to five years	\$ 2,101,500	\$ 2,016,000
Long-term lease liability	Due within one to five years	\$ 309,207	—

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, 2019 was \$2,329,812 (December 31, 2018 - \$2,958,202).

4. CHANGES IN ACCOUNTING POLICIES

Recent accounting pronouncements - New standards adopted as of January 1, 2018

The Company has adopted the following new or amended IFRS standards for the annual period beginning on January 1, 2018.

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.

4. CHANGES IN ACCOUNTING POLICIES (continued)**Recent accounting pronouncements - New standards adopted as of January 1, 2018** (continued)**IFRS 9 Financial Instruments**

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as was the case under IAS 39. This applies to the Company's trade and other receivables. The Company has elected to apply the limited exemption in IFRS 9 paragraph 7.2.15 relating to transition for classification, measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. The adoption of IFRS 9 had no impact on the Company's consolidated financial statements on the date of initial application. There was no change in the carrying amounts on the basis of allocation from original measurement categories under IAS 39 Financial Instruments: Recognition and Measurement to the new measurement categories under IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. On April 12, 2016, the IASB published final clarifications to IFRS 15 with respect to identifying performance obligations, principal versus agent considerations, and licensing. The Company applied IFRS 15 retrospectively and determined that there is no change to the comparative periods or transitional adjustments required as a result of the adoption of this standard. The Company adopted the new standard as of January 1, 2018. The Company's financial performance and disclosure are not materially affected by the application of the standard.

Recent accounting pronouncements - New standard adopted as of January 1, 2019**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 are 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 or the Company's incremental borrowing rate. The accounting requirements from the perspective of the lessor remain largely in line with previous IAS 17 requirements.

The Company has only one lease which falls within the scope of IFRS 16. Additional information regarding the lease is in Note 12 – Commitments. The Company has adopted the modified retrospective approach from January 1, 2019. As a result, the Company has recognized a right-of-use asset representing its rights to use the underlying asset and a lease liability representing its obligation to make lease payments. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of transition, January 1, 2019. The lease liability is initially measured at the present value of the lease payments outstanding at the date of transition, discounted using the Company's incremental borrowing rate which was determined to be 5.75%. The right-of use asset is presented in 'Property and equipment' and the current and long-term portions of the lease liability are separately presented in the Statement of Financial Position.

The Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases and apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 Leases will not be reassessed for whether a lease exists. The Company has also elected to not recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low-value assets. The Company will also account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

5. CASH

	September 30, 2019	December 31, 2018
Cash at banks, and on hand	\$447,750	\$856,504

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

AURORA SPINE CORPORATION**Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)***(US dollars)***6. INVENTORY**

The following comprises inventory:

	September 30, 2019	December 31, 2018
Spinal implants	\$ 633,663	\$ 690,413
TiNano PEEK implants	1,308,349	1,213,549
Biologics	103,104	131,594
WIP and sub-assembly	489,005	527,401
Total	\$2,534,121	\$2,562,957

The cost of goods sold during the three and nine months ended September 30, 2019 is \$1,518,986 and \$5,054,872 (three and nine months ended September 30, 2018 - \$1,319,018 and \$2,823,217).

7. INTANGIBLE ASSETS

The following comprises intangible assets:

	September 30, 2019	December 31, 2018
Opening balance	\$ 853,529	\$ 264,247
Acquisition costs	–	603,896
Amortization costs	(10,960)	(14,614)
Ending balance	\$ 842,569	\$ 853,529

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, 2019, the Company had recognized \$3,653 and \$10,960 of amortization expense (three and nine months ended September 30, 2018 - \$3,654 and \$10,961). No impairment was recognized as of September 30, 2019 and December 31, 2018.

On November 16, 2018, the Company acquired an exclusive license to US patent #9,451,986 title “Percutaneous sacroiliac joint implant and method for surgically inserting and securing the implant into the sacroiliac joint” in an agreement with SILIF Corporation (SILIF) of Buffalo, New York, the inventor of a posterior SI Fusion technology. On December 13, 2018, the Company issued to SILIF as consideration for the license, 1,000,000 common shares at a price of CDN\$0.30 (US\$0.224) per share, with all such shares being subject to a 5 year tiered lock-up agreement, with 20% of the shares released from the lock-up on each anniversary of the closing date of the transaction. The fair value of the shares issued was estimated at \$238,180 using the Finnerty model to calculate a restriction discount. In addition, the Company issued to SILIF warrants to purchase up to 1,750,000 common shares of the Company, exercisable at CDN\$0.35 for a period of 5 years following the date of grant. The warrants will vest in 20% increments on each anniversary of the closing date of the transaction. The fair value of the warrants issued was estimated at \$365,716 using the Black-Scholes model.

AURORA SPINE CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

(US dollars)

8. PROPERTY AND EQUIPMENT

Property and equipment as at September 30, 2019 are composed of the following:

	Trays and Instruments	Computer Equipment	Furniture and Fixtures	Automobiles	Leaseholds	Right-of-use Asset: Building	Total
Cost							
As at December 31, 2018	\$ 3,753,646	\$ 89,385	\$ 56,130	\$ 20,453	\$ 6,783	\$ –	\$ 3,926,397
Additions	181,034	4,146	1,849	2,702	–	–	189,731
Disposals	(12,477)	–	–	–	–	–	(12,477)
IFRS adjustment	–	–	–	–	–	477,590	477,590
As at September 30, 2019	3,922,203	93,531	57,979	23,155	6,783	477,590	4,581,241
Accumulated depreciation							
As at December 31, 2018	3,041,802	79,150	37,147	–	1,696	–	3,159,795
Disposals	(8,851)	–	–	–	–	–	(8,851)
Depreciation for the period	578,270	13,703	5,961	3,514	848	84,280	686,576
As at September 30, 2019	3,611,221	92,853	43,108	3,514	2,544	84,280	3,837,520
Net book value							
As at September 30, 2019	\$ 310,982	\$ 678	\$ 14,871	\$ 19,641	\$ 4,239	\$ 393,310	\$ 743,721

9. 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, 2019	December 31, 2018
Trade and other payables	\$ 1,876,693	\$ 1,868,960

10. 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	
	#	\$
Balance, December 31, 2018	46,433,674	20,661,153
Stock options exercised, July 1, 2019 ^[i]	44,070	5,005
Balance, September 30, 2019	46,477,744	20,666,158

[i] On July 1, 2019 pursuant to the exercise of 44,070 stock options, the Company issued 44,070 common shares at prices ranging from CDN\$0.09 to CDN\$0.19 with a weighted average exercise price of approximately CDN\$0.15 (USD\$0.11) per share for aggregate gross proceeds of CDN\$6,519 (USD\$5,005).

10. 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, 2019, 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, 2018	2,531,000	\$0.22	6.09
Issued ^{(a)(b)(c)}	823,500	\$0.34	7.63
Exercised ^(c)	(44,070)	\$0.11	N/A
Forfeited	(255,930)	N/A	N/A
Balance, September 30, 2019	3,054,500	\$0.25	5.90
Exercisable, September 30, 2019	1,634,417	\$0.22	6.08

- (a) During the quarter ended March 31, 2019, the Company granted a total of 306,250 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 \$46,087 using the Black-Scholes option pricing model. The stock compensation expensed was \$18,498 which relates to current and prior period grants.
- (b) During the quarter ended June 30, 2019, the Company granted a total of 302,250 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 \$42,799 using the Black-Scholes option pricing model. The stock compensation expensed was \$25,901 which relates to current and prior period grants.
- (c) During the quarter ended September 30, 2019, the Company granted a total of 215,000 stock options. The options vest 1/3 on each annual anniversary for three years. The fair value of the stock options was estimated to be \$35,526 using the Black-Scholes option pricing model. The stock compensation expensed was \$22,678 which relates to current and prior period grants. The remaining expense will be recognized over the balance of the vesting periods. On July 1, 2019 pursuant to the exercise of 44,070 stock options, the Company issued 44,070 common shares at prices ranging from CDN\$0.09 to CDN\$0.19 with a weighted average exercise price of approximately CDN\$0.15 (USD\$0.11) per share for aggregate gross proceeds of CDN\$6,519 (USD\$5,005).

AURORA SPINE CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

(US dollars)

10. SHAREHOLDERS' EQUITY (continued)

[b] Stock options (continued)

The fair value of the options granted during the nine months ended September 30, 2019 was determined using the Black-Scholes option pricing model using the following assumptions:

	Nine months ended September 30, 2019
Weighted average risk-free interest rate	1.72%
Weighted average expected volatility	89%
Expected life	8 years
Expected dividend yield	Nil
Weighted average share price at date of grant	\$0.34
Weighted average exercise price at date of grant	\$0.34
Forfeiture rate	47%

(c) Warrants

The Company issued warrants effective December 13, 2018. Outstanding warrants entitle the holders to subscribe to an equivalent number of common shares as follows:

	Number of warrants	Weighted average exercise price Cdn \$
Balance, December 31, 2018	1,750,000	\$ 0.35
Issued	—	—
Balance, September 30, 2019	1,750,000	\$ 0.35

The fair value of the warrants issued were estimated at \$365,716 USD using the Black-Scholes model. The warrants expire on December 13, 2023. The warrants will vest in 20% increments on each anniversary of the closing date of the transaction.

The weighted average fair value of the warrants issued in 2018 was estimated using the Black-Scholes valuation method and based on the following assumptions.

	2018
Risk-free interest rate	2.09%
Expected volatility	111%
Expected life	5 years
Expected dividend yield	Nil
Share price at date of grant (Cdn \$)	\$0.35
Exercise price at date of grant (Cdn \$)	\$0.35
Fair value (Cdn \$)	\$0.28
Forfeiture rate	Nil

11. RELATED PARTY TRANSACTIONS

The Company's related parties include key management and personnel. The Company 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 chief executive officer, the chief financial officer, 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, 2019, trade payable balances to related parties totaled \$Nil (2018 - \$Nil) and there is an outstanding loan payable to a director of the Company of \$80,000 (2018 - \$110,000) which is due on or before May 2022 and is secured by the

AURORA SPINE CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

(US dollars)

11. RELATED PARTY TRANSACTIONS (continued)

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, 2019, the accrued interest related to the loan is \$421,500 (2018 – \$277,500). 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, 2019 is \$373,555 which includes \$8,216 stock based compensation (nine months ended September 30, 2018 – \$393,801 which includes \$17,750 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 Offering.

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 was used for working capital purposes and to repay a USD\$125,000 loan advanced by a director earlier in 2018.

12. 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 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.

The Company has signed a 70 month lease for their premises commencing on June 1, 2017 and terminating on March 31, 2023. As at September 30, 2019, minimum base rent lease commitments under the non-cancellable lease are as follows:

	September 30, 2019	September 30, 2018
Less than 1 year	\$ 98,359	\$ 125,494
Between 1 year and 5 years	258,868	357,227
Total	\$ 357,227	\$ 482,721

13. BASIC AND DILUTED LOSS PER SHARE

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Net loss	\$ (667,105)	\$ 21,095
Weighted average common shares outstanding	46,448,525	44,211,916
Basic and diluted loss per share	\$ (0.01)	\$ 0.00