Aurora Spine Corporation

Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

Independent Auditor's Report

To the Shareholders of Aurora Spine Corporation:

Opinion

We have audited the consolidated financial statements of Aurora Spine Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Murad Bhimani.

MNP LLP

Toronto, Ontario
April 25, 2019

Chartered Professional Accountants
Licensed Public Accountants

(US dollars)

	Notes	2018	2017
ASSETS			
Current			
Cash	6	$ 856,504	$ 12,665
Trade and other receivables	4	1,584,269	811,491
Prepaid expenses and deposits		219,301	471,859
Inventory	7	2,562,957	2,462,509
Total current assets		5,223,031	3,758,524
Non-current			
Intangible assets	8	853,529	264,247
Property and equipment	9	766,602	1,265,720
Total non-current assets		1,620,131	1,529,967
Total assets		$ 6,843,162	$ 5,288,491
LIABILITIES			
Current			
Trade and other payables	10, 12	$ 1,868,960	$ 1,735,108
Total current liabilities		1,868,960	1,735,108
Non-current			
Due to related parties	12	2,016,000	1,902,000
Total non-current liabilities		2,016,000	1,902,000
Total liabilities		3,884,960	3,637,108
SHAREHOLDERS' EQUITY			
Common shares	11	20,661,153	19,706,040
Warrants	11	365,716	–
Contributed surplus		645,535	591,347
Deficit		(18,714,202)	(18,646,004)
Total shareholders' equity		2,958,202	1,651,383
Total liabilities and shareholders' equity		$ 6,843,162	$ 5,288,491
Commitments	13		

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 25, 2019.

/s/ Trent Northcutt
Director

/s/ David Rosenkrantz
Director

AURORA SPINE CORPORATION
Consolidated Statements of Comprehensive Loss
Years ended December 31, 2018 and 2017

(US dollars)

	Notes	December 31, 2018	December 31, 2017
SALES		$ 8,682,321	$ 5,989,114
Cost of goods sold		4,089,255	3,429,885
GROSS PROFIT		4,593,066	2,559,229
OPERATING EXPENSES			
Executive compensation	12	554,450	541,253
Salaries		1,363,376	1,276,406
Consulting fees		335,998	227,403
General and administrative		621,626	675,195
Research and development		36,304	21,055
Bad debt		–	157,940
Marketing		47,142	31,859
Occupancy		89,348	123,056
Professional fees		197,080	412,599
Stock based compensation	11	54,188	74,579
Insurance		421,554	372,767
Depreciation and amortization	8, 9	780,562	826,165
Interest		147,585	144,651
TOTAL OPERATING EXPENSES		4,649,213	4,884,928
OPERATING LOSS		(56,147)	(2,325,699)
Gain (loss) on sale of property and equipment	9	(12,051)	85,348
NET LOSS AND COMPREHENSIVE LOSS		$ (68,198)	$ (2,240,351)
Basic and diluted loss per share	14	$ (0.00)	$ (0.06)

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

(US dollars)

	Notes	Common shares Share Number	Common shares Amount	Warrants	Contributed surplus	Deficit	Total
Balance, January 1, 2017		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)
Balance, December 31, 2017		36,168,674	$19,706,040	$ –	$591,347	$(18,646,004)	$1,651,383
Balance, December 31, 2017		36,168,674	$19,706,040	$ –	$591,347	$(18,646,004)	$1,651,383
February 6, 2018, private placement	11	9,265,000	741,200	–	–	–	741,200
Shares issued for license	11	1,000,000	238,180	365,716	–	–	603,896
Share issuance costs	11	–	(24,267)	–	–	–	(24,267)
Stock based compensation	11	–	–	–	54,188	–	54,188
Total comprehensive loss		–	–	–	–	(68,198)	(68,198)
Balance, December 31, 2018		46,433,674	$20,661,153	$365,716	$645,535	$(18,714,202)	$2,958,202

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

AURORA SPINE CORPORATION
Consolidated Statements of Cash Flows
Years ended December 31, 2018 and 2017

(US dollars)

	Notes	December 31, 2018	December 31, 2017
OPERATING ACTIVITIES			
Net loss		$ (68,198)	$ (2,240,351)
Adjustments			
Depreciation and amortization	8, 9	780,562	826,165
Stock based compensation	11	54,188	74,579
(Gain) loss on sale of property and equipment		12,051	(85,348)
Loan interest		144,000	146,537
Changes in working capital components			
Trade and other receivables		(772,778)	417,062
Prepaid expenses and deposits		252,558	(153,473)
Inventory	7	(100,448)	534,431
Trade and other payables	10	133,852	(665,088)
Cash flows from (used in) operating activities		435,787	(1,145,486)
FINANCING ACTIVITIES			
Repayment of amounts due to related parties	12	(30,000)	(17,500)
Issuance of common shares	11	741,200	350,209
Share issuance costs	11	(24,267)	(3,147)
Advance from shareholder	12	–	600,000
Cash flows received from financing activities		686,933	929,562
INVESTING ACTIVITIES			
Additions to intangible assets	8	–	(81,321)
Proceeds from sale of property and equipment		13,774	173,155
Additions to property and equipment	9	(292,655)	(56,087)
Cash flows from (used in) investing activities		(278,881)	35,747
Net change in cash		843,839	(180,177)
Cash, beginning of year		12,665	192,842
Cash, end of year		$ 856,504	$ 12,665

Supplemental disclosure of cash flow information:

Cash paid during the year for:			
Interest		$ 15,622	$ 20,614

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

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 25, 2019.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretation Committees ("IFRIC") 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. 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 consolidated financial statements are prepared using the historical cost method and are presented in US dollars which is the 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 entitites 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.

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.

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

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 will continue to raise funds going forward if required to satisfy its obligations as they become due.

(e) Estimation uncertainty disclosure for share based payments 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, 2018 and 2017, management's assessment of impairment is based on the following judgements:

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

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.

2. BASIS OF PREPARATION (continued)

(g) Income taxes

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.

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

Asset	Basis	Rate
Machinery and equipment	Declining balance	20%
Automobiles	Straight line - 5 year	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%

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Property and equipment (continued)

As at December 31, 2018 and 2017, 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 ecomomic life is shorter. During the years ended December 31, 2018 and 2017, the Company recorded $14,614 and $28,040 of amortization expense, respectively. As at December 31, 2018 and 2017 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.

To determine whether to recognise revenue, the Company follows a 5-step process:

Step 1: Identify the contract(s) with the customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when the entity specifies a performance obligation

Based on the above analysis on revenue recognition, management has determined that the appropriate point of revenue recognition is when a scrub form is received in all cases except for sales to stocking distributors, which is recorded as revenue when shipment is made.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial instruments

Financial assets

Recognition and initial measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of accounts receivable.

- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive income.

- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss comprised of cash.

- Designated at fair value through profit or loss – On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets designated to be measured at fair value through profit or loss.

Business model assessment

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed, and information is provided to management. Information considered in this assessment includes stated policies and objectives.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial instruments (continued)

Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The Company applies the simplified approach for accounts receivable. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.
The Company assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts and breaches of borrowing contracts such as default events or breaches of borrowing covenants. For financial assets assessed as credit-impaired at the reporting date, the Company continues to recognize a loss allowance equal to lifetime expected credit losses.

For financial assets measured at amortized cost, loss allowances for expected credit losses are presented in the statements of comprehensive loss as a deduction from the gross carrying amount of the financial asset.
Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

Financial liabilities

Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

On the date of initial application, January 1, 2018, the financial instruments of the Company were reclassified as follows:

	IFRS 9		**IAS 39**	
	Classification	**Measurement**	**Classification**	**Measurement**
Cash	FVTPL	Fair value	FVTPL	Fair Value
Trade and other receivables	Amortized cost	Amortized cost	Loans and receivables	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost	Other financial liabilities	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost	Other financial liabilities	Amortized cost

Derecognition of financial liabilities

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

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:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial instruments (continued)

- 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).

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.

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.

4. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

Credit risk (continued)

Trade Receivables

Description	December 31, 2018	December 31, 2017
Current	$ 1,048,369	$ 470,943
Past due 1-30 days	510,690	243,147
Past due 31-60 days	18,570	25,410
Over 60 days	6,640	71,991
Closing Balance	$ 1,584,269	$ 811,491
Maximum Credit Risk	$ 1,584,269	$ 811,491

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. The provision matrix below shows the excepted credit loss rate at each aging category of receivables.

	Current	Aged 1-30 days past due	Aged 31-60 days past due	Aged > 60 days past due
Expected loss rate	0.00%	0.00%	0.00%	91.693%
Gross carrying amount	1,048,369	510,690	18,570	79,932
Loss allowance provision, end of the period	-	-	-	73,292

Individual receivables which are known to be uncollectible are 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 been 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

See table above for information about the aging of trade and other receivables.

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, 2018 and 2017 and as such not deemed to be a risk to be hedged at the present time.

Interest rate risk

Interest rate risk arises because of changes in market interest rates. The Company 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

(US dollars)

4. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

Liquidity risk (continued)

working capital position was $3,354,071 (December 31, 2017 - $2,023,416). 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.

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

Liability	Terms	2018	2017
Trade and other payables	Due within one year	$1,868,960	$1,735,108
Related party loans	Due within one to five years	$2,016,000	$1,902,000

Capital management

The Company's objective when managing capital, defined as its debt and equity, is to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The Company is not subject to any externally imposed capital requirements. The Company's objective is to ensure adequate working capital to commercialize its products and it will use the sale of equity to fund its business to the point of revenue generation and asset based borrowing being sufficient to fund the business fully. The Company considers its capital to be the aggregate of shareholders' equity, comprising share capital, contributed surplus and deficit, which at December 31, 2018 was $2,958,202 (2017 - $1,651,383).

5. 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.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. This applies to the Company's trade and other receivables. 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 has 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 has 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.

(US dollars)

5. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

New and revised IFRS in issue that have not been early adopted by the Company

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. On transition to IFRS 16, the Company will elect 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 will elect 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. The Company has only one lease which falls within the scope of IFRS 16 and after initial analysis, does not expect its financial performance or disclosure to be materially affected by the adoption of this standard.

6. CASH

	December 31, 2018	December 31, 2017
Cash at banks, and on hand	$856,504	$12,665

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

7. INVENTORY

The following comprises inventory:

	December 31, 2018	December 31, 2017
Spinal implants	$ 690,413	$ 793,635
TiNano PEEK implants	1,213,549	1,203,732
Biologics	131,594	160,820
WIP and sub-assembly	527,401	304,322
Total	$2,562,957	$2,462,509

The amounts of inventory expensed during the year ended December 31, 2018 is $1,913,243 (2017 - 1,797,403). During the years ended December 31, 2018 and 2017, the Company did not record any inventory impairment.

8. INTANGIBLE ASSETS

The following comprises intangible assets:

	December 31, 2018	December 31, 2017
Intangible Assets (Opening balance)	$264,247	$210,966
Acquisition costs	603,896	81,321
Amortization costs	(14,614)	(28,040)
Intangible Assets (Ending balance)	$853,529	$264,247

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, 2018 and 2017.

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

(US dollars)

8. INTANGIBLE ASSETS (continued)

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.

9. PROPERTY AND EQUIPMENT

Property and equipment as at December 31, 2018 are composed of the following:

	Trays and Instruments	Machinery and Equipment	Computer Equipment	Furniture and Fixtures	Automobiles	Leaseholds	Total
Cost							
As at December 31, 2017	$3,505,641	$49,487	$79,150	$101,736	$ –	$ 6,783	$3,742,797
Additions	261,967	–	10,235	–	20,453	–	292,655
Disposals	(13,962)	(49,487)	–	(45,606)	–	–	(109,055)
As at December 31, 2018	3,753,646	–	89,385	56,130	20,453	6,783	3,926,397
Accumulated							
As at December 31, 2017	2,315,973	34,796	66,886	58,857	–	565	2,477,077
Disposals	(3,280)	(44,693)	–	(35,257)	–	–	(83,230)
Depreciation for the year	729,109	9,897	12,264	13,547	–	1,131	765,948
As at December 31, 2018	3,041,802	–	79,150	37,147	–	1,696	3,159,795
Net book value							
As at December 31, 2018	$ 711,844	$ –	$10,235	$ 18,983	$ 20,453	$ 5,087	$ 766,602

During the year ended December 31, 2018, property and equipment with a net book value of $25,825 were written off. The Company also recovered trays and instruments with a net book value of $13,774 which were written off during the year ended December 31, 2017.

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

(US dollars)

9. PROPERTY AND EQUIPMENT (continued)

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.

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, 2018	December 31, 2017
Trade and other payables	$ 1,868,960	$ 1,735,108

11. SHAREHOLDERS' EQUITY

(a) Share capital

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

	Common Shares	
	#	$
January 1, 2017	33,248,674	19,358,978
Private placement [i]	1,670,000	225,209
Share issuance costs [i]	–	(1,763)
Private placement [ii]	1,250,000	125,000
Share issuance costs [ii]	–	(1,384)
December 31, 2017	36,168,674	19,706,040
Private placement [iii]	9,265,000	741,200
Share issuance costs [iii]	–	(24,267)
Issued for license [iv]	1,000,000	238,180
December 31, 2018	46,433,674	20,661,153

i) 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).

ii) 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).

iii) On February 6, 2018, the Company completed a private placement of common shares, pursuant to which 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). Share issuance costs totaled CDN$30,334 (US$24,267). A director of the Company subscribed for an aggregate of 1,800,000 common shares for cash consideration of CDN$180,000 (US$144,000).

iv) On December 13, 2018, as consideration for the SILIF patent license, the Company issued 1,000,000 common shares at a price of CDN$0.30 (US$0.224) per share, with all 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. Share issuance costs were Nil.

(US dollars)

11. SHAREHOLDERS' EQUITY (continued)

(b) Stock options

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

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

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

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

As at December 31, 2018, the number of outstanding options which could be exercised for an equivalent number of common shares is as follows:

	Number of options	Weighted average exercise price	Weighted average remaining life in years
Balance, December 31, 2016	1,961,000	$0.44	7.04
Issued[(a)]	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
Issued[(b)]	491,250	$0.25	7.33
Forfeited	(347,500)	N/A	N/A
Balance, December 31, 2018	2,531,000	$0.22	6.09
Exercisable, December 31, 2018	1,102,417	$0.23	6.50

(a) 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.

(b) During the year ended December 31, 2018, the Company granted a total of 491,250 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 $50,478 using the Black-Scholes option pricing model, with $54,188 expensed related to current and prior period grants. The remaining expense will be recognized over the balance of the vesting periods.

(US dollars)

11. SHAREHOLDERS' EQUITY (continued)

(b) Stock options (continued)

	2018	2017
Risk-free interest rate	1.95 - 2.47%	1.37 - 1.99%
Expected average volatility	92%	94%
Expected life	8 years	8 years
Expected dividend yield	Nil	Nil
Share price at date of grant	$0.12 - $0.36	$0.095 - $0.19
Exercise price at date of grant	$0.12 - $0.36	$0.095 - $0.20
Forfeiture rate	50%	46%

(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, January 1, 2017 and December 31, 2017	–	$ –
Issued, December 13, 2018	1,750,000	0.35
Balance, December 31, 2018	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

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 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.

(US dollars)

12. RELATED PARTY TRANSACTIONS (continued)

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

	2018	2017
Short-term	$ 554,450	$ 541,253
Share based payments	25,070	52,504
Total	$ 579,520	$ 593,757

As at December 31, 2018, trade payable balances to related parties total $Nil (2017 - $18,500) and there is an outstanding loan payable to a director of the Company of $102,500 (2017 – $132,500) 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 principal amount of $1,600,000 (2017 - $1,600,000) which bears an interest rate of 9% per annum and is due on or before June 2021. As at December 31, 2018, the accrued interest related to the loan is $313,500 (2017 – $169,500). The note is secured by the tangible and intangible assets of the Company.

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).

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 April 2, 2018 from the proceeds of the February 2018 private placement.

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

13. COMMITMENTS

In December 2012, Aurora Spine LLC entered into two separate 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.

On April 14, 2017 the Company signed a new lease with its landlord which terminated 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 reduced 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 reduced 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:

(US dollars)

13. COMMITMENTS (continued)

	December 31, 2018	December 31, 2017
Less than 1 year	$ 111,204	$ 153,402
Between 1 year and 5 years	350,616	417,480
Thereafter	–	44,340
Total	$ 461,820	$ 615,222

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 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, 2018	December 31, 2017
Net loss	$ (68,198)	$ (2,240,351)
Weighted average common shares outstanding	42,154,825	35,175,523
Basic and diluted loss per share	$ (0.00)	$ (0.06)

15. INCOME TAXES

The reconciliation of the combined Canadian Federal and Provincial income tax rate of 26.5% (2017 – 26.5%) to the effective tax rate is as follows:

	December 31, 2018	December 31, 2017
Net loss before recovery of income taxes	$ 68,198	$ 2,240,351
Expected income tax recovery	(18,072)	(593,690)
Difference in foreign tax rates	(206)	(284,610)
Tax rate changes and other adjustments	(13,302)	1,902,270
Share based payment and non-deductible expenses	24,612	33,280
Prior year true-up	5,924	107,090
Change in deferred tax asset not recognized	1,044	(1,164,340)
Income tax (recovery) expense	$ –	$ –

	December 31, 2018	December 31, 2017
Deferred tax assets		
Net operating loss - USA	$ 153,468	$ 178,693
Deferred tax liabilities		
Property, plant and equipment	(147,116)	(176,352)
Goodwill	(6,352)	(2,341)
Net deferred tax asset	$ –	$ –

(US dollars)

15. INCOME TAXES (continued)

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, 2018	December 31, 2017
Share issuance costs	$ 77,069	$ 235,580
Non-capital losses carried forward - Canada	1,078,293	895,510
Non-capital losses carried forward - US	15,935,789	15,938,220
Non-capital losses carried forward - UK	361,030	361,020
Other temporary differences	48,464	52,380
	$17,500,644	$17,482,710

The Company has not recorded deferred tax assets related to the temporary differences noted above. 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	$ 29,155	$ 2,694,403	$ 2,723,558
2014	2034	244,798	7,427,330	7,672,128
2015	2035	205,996	2,736,630	2,942,626
2016	2036	207,467	1,819,046	2,026,513
2017	2037	208,097	1,806,800	2,014,897
2018	2038	182,780	–	182,780
		$ 1,078,293	$ 16,484,209	$ 17,562,502

	Non-Capital Losses
Year of Loss	UK
2014	$ 189,080
2015	125,797
2016	46,153
	$ 361,030

The UK losses of $361,030 can be carryforward indefinitely.

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.