

# AURORA SPINE CORPORATION

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2020

(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, 2020	December 31, 2019
<b>ASSETS</b>			
<b>Current</b>			
Cash	5	\$ 2,085,552	\$ 444,741
Trade and other receivables, net	4	1,585,613	2,443,096
Prepaid expenses and deposits		179,959	262,217
Inventory	6	1,721,999	1,529,474
<b>Total current assets</b>		<b>5,573,123</b>	<b>4,679,528</b>
<b>Non-current</b>			
Intangible assets	7	827,954	838,915
Property and equipment, net	3, 8	1,143,618	1,155,249
<b>Total non-current assets</b>		<b>1,971,572</b>	<b>1,994,164</b>
<b>Total assets</b>		<b>\$ 7,544,695</b>	<b>\$ 6,673,692</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Trade and other payables		\$ 1,858,529	\$ 2,493,223
Deferred other income	14	57,496	–
Due to related parties	10	30,000	30,000
<b>Total current liabilities</b>		<b>1,946,025</b>	<b>2,523,223</b>
<b>Non-current</b>			
Due to related parties	10	2,113,500	2,100,000
Lease	13	199,505	282,444
<b>Total non-current liabilities</b>		<b>2,313,005</b>	<b>2,382,444</b>
<b>Total liabilities</b>		<b>4,259,030</b>	<b>4,905,667</b>
<b>SHAREHOLDERS' EQUITY</b>			
Common shares	9	21,850,680	20,669,713
Warrants	9	830,548	365,716
Contributed surplus		796,184	734,438
Deficit		(20,191,747)	(20,001,842)
<b>Total shareholders' equity</b>		<b>3,285,665</b>	<b>1,768,025</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 7,544,695</b>	<b>\$ 6,673,692</b>
Commitments	11		

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 19, 2020.

/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	
		2020	2019	2020	2019
<b>REVENUE</b>		\$ 2,368,692	\$ 2,530,602	\$ 6,208,392	\$ 8,520,070
Cost of goods sold	6	1,230,824	1,518,986	3,642,919	5,054,872
<b>GROSS PROFIT</b>		<u>1,137,868</u>	<u>1,011,616</u>	<u>2,565,473</u>	<u>3,465,198</u>
<b>OPERATING EXPENSES</b>					
Executive compensation	10	143,438	110,753	388,674	365,339
Salaries		278,441	324,206	847,078	1,064,165
Consulting fees		151,215	118,204	261,355	322,919
General and administrative		198,961	293,572	559,490	696,736
Research and development		69,388	22,462	216,048	163,700
Marketing		7,248	138,510	18,515	141,950
Professional fees		72,631	3,325	208,044	130,024
Stock based compensation	9, 10	23,185	22,678	61,746	67,077
Insurance		84,453	116,773	277,671	350,871
Depreciation and amortization	7, 8	86,413	208,152	348,757	613,256
Depreciation of right-of-use asset	4, 8	28,094	28,093	84,281	84,280
Interest, lease liability	4	4,509	6,287	14,849	20,374
Interest, other	10	(1,304)	36,000	33,159	110,830
<b>TOTAL OPERATING EXPENSES</b>		<u>1,146,672</u>	<u>1,429,015</u>	<u>3,319,667</u>	<u>4,131,521</u>
<b>OPERATING INCOME (LOSS)</b>		<u>(8,804)</u>	<u>(417,399)</u>	<u>(754,194)</u>	<u>(666,323)</u>
Gain (loss) on sale of property and equipment		–	–	–	(782)
Other Income (expense)	14	344,967	–	564,289	–
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)</b>		<u>\$ 336,163</u>	<u>\$ (417,399)</u>	<u>\$ (189,905)</u>	<u>\$ (667,105)</u>
Basic and diluted income (loss) per share	12	<u>\$ 0.01</u>	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>

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

AURORA SPINE CORPORATION

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

(US dollars)

Notes	Common shares		Warrants	Contributed surplus	Deficit	Total
	Share Number	Amount				
Balance, December 31, 2018	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	–	–	–	–	(33,367)	(33,367)
Stock based compensation	–	–	–	67,077	–	67,077
Total comprehensive income (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
Balance, December 31, 2019	46,477,744	\$20,669,713	\$365,716	\$734,438	\$(20,001,842)	\$1,768,025
Private placement, February 2020	9	8,932,000	464,832	–	–	1,697,080
Share issuance costs	9	(51,281)	–	–	–	(51,281)
Stock based compensation	9	–	–	61,746	–	61,746
Total comprehensive income (loss)	–	–	–	–	(189,905)	(189,905)
Balance, September 30, 2020	55,409,744	\$21,850,680	\$830,548	\$796,184	\$(20,191,747)	\$3,285,665

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	
		2020	2019	2020	2019
<b>OPERATING ACTIVITIES</b>					
Net income (loss)		\$ 336,163	\$ (417,399)	(189,905)	\$ (667,105)
Adjustments					
Depreciation and amortization	7, 8	86,413	208,152	348,757	613,256
Depreciation of right-of-use asset: Building	8	28,094	28,093	84,281	84,280
Interest expense on lease liability	4	4,509	6,287	14,849	20,374
Stock based compensation	9	23,185	22,678	61,746	67,077
(Gain) loss on sale of property and equipment		–	–	–	782
(Gain) loss on extinguishment of payable	14	–	–	(160,908)	–
Loan interest		–	36,000	36,000	108,000
Changes in working capital components					
Trade and other receivables		3,846	349,309	857,483	(441,508)
Prepaid expenses and deposits		(3,663)	92,350	82,258	71,137
Inventory		(21,613)	46,709	(192,525)	28,836
Trade and other payables	11	192,306	(261,459)	(473,786)	7,733
Deferred other income (expense)	14	(344,967)	–	57,496	–
Cash flows from (used in) operating activities		304,273	110,720	525,746	(107,138)
<b>FINANCING ACTIVITIES</b>					
Repayment of amounts due to related parties	10	(7,500)	(7,500)	(22,500)	(22,500)
Principal portion paid on lease liability	4	(28,252)	(26,105)	(82,939)	(76,860)
Interest paid on lease liability	4	(4,509)	(6,287)	(14,849)	(20,374)
Issuance of common shares		–	5,005	1,697,080	5,005
Share issuance costs		–	–	(51,281)	–
Cash flows from (used in) financing activities		(40,261)	(34,887)	1,525,511	(114,729)
<b>INVESTING ACTIVITIES</b>					
Proceeds from sale of property and equipment		–	–	–	2,844
Additions to property and equipment	8	(121,501)	(17,641)	(410,446)	(189,731)
Cash flows from (used in) investing activities		(121,501)	(17,641)	(410,446)	(186,887)
Net change in cash		142,511	58,192	1,640,811	(408,754)
Cash, beginning of period		1,943,041	389,558	444,741	856,504
Cash, end of period		\$ 2,085,552	\$ 447,750	\$ 2,085,552	\$ 447,750

**Supplemental disclosure of cash flow information:**

Cash paid during the period for:

Interest	\$ –	\$ –	\$ (1,943)	\$ (2,830)
Income Taxes	\$ –	\$ –	\$ –	\$ –

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

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

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(US dollars)

**1. CORPORATE INFORMATION**

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

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

The Company is engaged in the development and distribution of 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 19, 2020.

**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, 2019. The Company’s significant accounting policies as presented in Note 3 of the financial statements for the year ended December 31, 2019 have been consistently applied in the preparation of these condensed interim consolidated financial statements.

*Going concern*

Management prepared these condensed interim consolidated financial statements using the going concern assumption which means the Company can realize its assets and discharge its liabilities in the normal course of business. These condensed interim consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. The Company’s management plans to fund its future operations and settle its debt using cash from operations and, if required, by obtaining additional financing through private placements and loans.

*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 the Company’s functional currency.

*Basis of consolidation*

These condensed interim consolidated financial statements include 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 at 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 of an entity. The existence and effect of potential voting rights that are exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are consolidated from the date that control is obtained by the Company and are deconsolidated from the date when control ceases. In December 2017, the Company ceased operations of its wholly owned European subsidiary, Aurora Spine Europe Limited, but has not formally dissolved the inactive subsidiary to date.

## **2. BASIS OF PREPARATION (continued)**

### *Use of estimates and judgement*

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

Judgment is used in situations when there is a choice and/or assessment required by management. The following are critical judgments, apart from those involving estimates 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 condensed interim consolidated financial statements. Significant assumptions about the future, and other sources of estimates or uncertainty that management has made at the date of the condensed interim consolidated financial statements, could result in a material adjustment to the carrying amounts of assets or liabilities.

In the event that actual results differ from the assumptions made, relate to, but 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 estimated 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 the assets.

#### **(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 that may occur.

#### **(d) Going concern**

As discussed above, these condensed interim consolidated financial statements are prepared on a going concern basis in accordance with IFRS, 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. Management has taken into account business disruptions due to Covid-19. Our customers are able to pay, and our suppliers continue to supply inventory with marginal delay. Management will continue to assess new information as it is available. For Additional information please refer to Note 14 – Subsequent Events.

#### **(e) 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 fair value of the instruments on the grant date. The model includes the historical volatility of similar companies over the expected term of the options and warrants granted. If management estimates that historical volatility requires an adjustment, they consider the historical volatility of the share price of comparable companies at similar stages of development, 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.

**2. BASIS OF PREPARATION (continued)**

**(f) Intangible assets and their impairment**

Annually, management assesses each intangible asset to determine whether any indication of impairment exists. When an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is the higher of the fair value less costs to sell and value in use.

Periodically, management evaluates each intangible asset to determine if it continues to hold value in the future. If there is little prospect of future value associated with the asset, the asset is written off or written down to the estimated amount recoverable value unless there is persuasive evidence that an impairment allowance is not required.

**(g) Inventory**

Management estimates the value of inventory based upon its assessment of the net realizable value less selling costs. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices. All expired inventory and adjustments for slow moving and excess inventory has been recognized and recorded in cost of goods sold.

**(h) Provision for expected credit losses (ECLs) of trade receivables and contract assets**

The Company uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer aging buckets.

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the health sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables is disclosed in Note 4.

**(i) Leases**

The application of IFRS 16 "Leases" requires significant judgements and certain key estimations to be made. Critical judgements required in the application of IFRS 16 include the following: (i) identifying whether a contract includes a lease; (ii) determining whether it is reasonably certain that an extension or termination option will exercised; (iii) determining whether variable payments are in-substance fixes; (iv) establishing whether there are multiple leases in an arrangement; and (v) determining the stand-alone selling price of lease and non-lease components. Key sources of estimation uncertainty in the application of IFRS 16 include the following: (i) estimating the lease term; (ii) determining the appropriate rate to discount lease payments; and (iii) assessing whether a right-of-use (ROU) asset is impaired.

(US dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Recent accounting pronouncements - New standards 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 13. The Company adopted the modified retrospective approach on January 1, 2019. As a result, the Company has recognized a right-of-use asset (“ROU”) 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, which were determined to be \$5,000 or less in annual payments. 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 principle accounting policies applied in the preparation of these condensed interim consolidated financial statements are set out below.

##### (a) Cash

Cash comprise cash on hand and demand deposits, together with other short-term, highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash is held at a US-based federally insured bank (Federal Deposit Insurance Corporation). The Company maintains its cash in accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

##### (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 and consumables (devices used in surgery). Costs of each type of inventory is determined using the weighted average method and includes amounts incurred to acquire, sterilize, and prepare the products for sale. The Company outsources its manufacturing operations.

Net realizable value is the estimated selling price less applicable selling expenses. If carrying value exceeds net realizable amount, an adjustment is recognized. The adjustment may be reversed in a subsequent period if the circumstance that caused it no longer exists. When inventories are sold, the carrying amount of inventories is recognized as an expense in the period that the related revenue is recognized.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(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:

<b>Asset</b>	<b>Basis</b>	<b>Rate</b>
Trays and instrument sets	Declining balance	20%
Computer equipment	Declining balance	20%
Furniture and fixtures	Declining balance	14%
Automobiles	Straight line – 5 years	20%
Leasehold improvements	Straight line – 5 years	20%
ROU - Buildings	Shorter of useful life or term of lease (1-5 years)	

**(d) Intangible assets and research costs**

The Company capitalizes the cost of intangible assets in accordance with IAS38 – Intangible Assets. Management identifies these acquired or created intangible assets if it determines that a future economic value exists, and the costs are reliably measurable. These costs may include the acquisition of intellectual property and licenses, preparing the products to enter medical testing, and government approval. The cost of these assets is amortized over the useful life of the product once ready for use. Intellectual property and patents are amortized over 20 years and license agreements are amortized over 5 years, unless the economic life is shorter.

Annually, management assesses and estimates impairment and each asset’s remaining useful life and this 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.

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 enough resources to complete development.

**(e) Impairment of property and equipment and intangible assets**

At the end of each reporting period, management reviews the carrying amounts of its tangible and intangible assets to determine if those assets may have suffered an impairment loss. If it appears so, management estimates the asset’s recoverable amount to determine the extent of the impairment loss, if any. When it is not possible to estimate a specific asset’s recoverable amount, management 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.

(US dollars)

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(e) Impairment of property and equipment and intangible assets (continued)**

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 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, consumable products used in spinal surgeries and service revenue for referring products to its customers. Revenue from the sale of products and services are 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 delivered to the customer, title and risk have passed to the customer and acceptance of the product has been obtained.

**4. FINANCIAL RISK MANAGEMENT**

The Company manages risk through established policies that provide management control to mitigate risk over operations. These policies provide for risk identification and assessment, and that appropriate and effective procedures are in place to mitigate risk. 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, concentration 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 all cash as cash on deposit in a FDIC (Federal Deposit Insurance Corporation) US-based bank. Management assesses the credit risk as negligible.

[ii] Trade receivables

The exposure to credit risk for the Company's trade receivables is minimal. The Company has some concentration of trade receivables in two customers that make up 36% of the receivables. Historically, there has been no credit loss with respect to these customers and the Company continues to monitor their health and credit ratios. The Company deals with reputable distributors and hospitals and its customer base is established and continuously monitored. Management consistently assesses customers for credit risk.

Description	Trade Receivables	
	September 30, 2020	December 31, 2019
Current	\$1,147,992	\$1,121,073
Past due 1-30 days	334,265	552,116
Past due 31-60 days	58,464	324,371
Over 60 days	47,254	450,370
Trade receivable balance and maximum credit risk	\$1,587,975	\$2,447,930
Net receivables, net of expected credit loss	\$1,585,613	\$2,443,096

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Credit risk (continued)**

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 expensed by reducing the carrying amount to zero. Other receivables are assessed collectively to determine whether there is objective evidence that an impairment has occurred but has not yet been identified. The Company maintains an expected credit loss that represents an estimate of the uncollectible amounts based on historical experience. The loss allowance provision is reduced by collections of receivables after the reporting date.

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.

The provision matrix below shows the expected 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 collection rate	100%	100%	100%	95%
Gross carrying amount	\$1,147,992	\$334,265	\$58,464	\$47,254
Loss allowance provision, end of period	–	–	–	\$2,362

The Company actively monitors trade receivables and management has determined that there should be no material change in the expected credit loss given the current status of the Covid-19 and its impact on customers. The Company is actively monitoring the credit risk of all customers. The Company has been actively collecting receivables and has seen an increased rate of collection and a decrease in amounts greater than 30 days past due.

**Foreign currency risk**

The prices paid by the Company's subsidiary for services and supplies are paid in US 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, 2020 and December 31, 2019 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 general, administrative and amounts necessary to obtain inventory and regulatory approval expenses to commercialize its products. The Company's objective is to maintain enough liquid resources to meet operational requirements and product line expansion.

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

(US dollars)

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Liquidity risk (continued)**

The Company's current assets exceed current liabilities by \$3,627,099 (December 31, 2019 - \$2,156,305). The Company's continuing operations are dependent upon its ability to generate cash flow from operations and secure additional equity capital, 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, 2020	December 31, 2019
Trade and other payables	Due within one year	\$1,858,529	\$2,493,223
Related party loans	Due within one year	\$30,000	\$30,000
Related party loans	Due within two years	\$2,113,500	\$2,100,000

**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. The Company is not subject to any externally imposed capital requirements. Management's objective is to ensure adequate working capital to fund operations and commercialize and distribute products. If necessary, it will use the sale of equity or asset-based borrowing to fund business operations to meet objectives. The Company's management considers its capital to be the aggregate of shareholders' equity, comprising share capital, warrants, share-based remuneration reserve and deficit, which at September 30, 2020 and December 31, 2019 was \$3,285,665 and \$1,768,025, respectively.

**5. CASH**

	September 30, 2020	December 31, 2019
Cash	\$2,085,552	\$444,741

Cash is held at a US-based federally insured bank. There are no restrictions on cash. The cash held at banks may earn interest at floating rates based on daily bank deposits. Interest earned through September 30, 2020 was \$4,784. There was no interest earned during 2019.

**6. INVENTORY**

The Company categorizes inventory as follows:

	September 30, 2020	December 31, 2019
ZIP implants	\$ 459,423	\$ 473,387
Titanium implants	198,319	–
TiNano PEEK implants	879,488	840,734
Consumables	140,595	121,580
WIP	44,174	93,773
<b>Total</b>	<b>\$1,721,999</b>	<b>\$1,529,474</b>

**AURORA SPINE CORPORATION**  
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(US dollars)

**6. INVENTORY (continued)**

Inventory is expensed to cost of goods sold upon the sale of the product or service. During the three months and nine months ended September 30, 2020, the amount expensed to cost of goods sold is \$1,230,824 and \$3,642,919 (three and nine-months September 30, 2019 - \$1,518,986 and \$5,054,872). During the nine months ended September 30, 2020 and the year ended December 31, 2019, the Company recognized inventory impairments of \$51,344 and \$930,105, respectively charged to cost of goods sold. The write downs were the result of inventory not expected to be sold, not suitable for re-sterilization, scrap or obsolete.

**7. INTANGIBLE ASSETS**

The following comprises intangible assets:

	September 30, 2020	December 31, 2019
Opening balance	\$ 838,915	\$ 853,529
Acquisition costs	–	–
Amortization costs	(10,961)	(14,614)
Ending balance	\$ 827,954	\$ 838,915

The Company capitalizes the cost of acquiring intellectual property. There were no additions in 2020 or 2019. Carrying amounts are subject to annual impairment review and whenever there is an indication that an intangible asset may be impaired, a charge is recognized. No impairment was recognized as of September 30, 2020 and December 31, 2019.

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, in exchange for the license, the Company issued 1,000,000 of its 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 used to value the license since there was no readily available fair value for the specific license. 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.

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(US dollars)

**8. PROPERTY AND EQUIPMENT**

Property and equipment at September 30, 2020 is comprised of the following:

	Trays and Instruments	Computer Equipment	Furniture and Fixtures	Automobiles	Leaseholds	ROU Asset - Building	Total
<b>Cost</b>							
December 31, 2019	\$4,015,294	\$99,274	\$56,130	\$23,157	\$6,783	\$477,590	\$4,678,228
Additions	410,446	–	–	–	–	–	410,446
Disposals	–	–	–	–	–	–	–
September 30, 2020	4,425,740	99,274	56,130	23,157	6,783	477,590	5,088,674
<b>Accumulated depreciation</b>							
December 31, 2019	3,279,991	82,862	40,069	4,631	3,052	112,374	3,522,979
Disposals	–	–	–	–	–	–	–
Depreciation for the period	324,208	5,370	3,727	3,473	1,017	84,282	422,077
September 30, 2020	3,604,199	88,232	43,796	8,104	4,069	196,656	3,945,056
<b>Net book value</b>							
September 30, 2020	\$ 821,541	\$11,042	\$12,334	\$15,053	\$2,714	\$280,934	\$1,143,618

**9. 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	
	#	\$
December 31, 2019	46,477,774	20,669,713
Private placement [i]	8,932,000	1,697,080
Share issuance costs [i]	–	(51,281)
September 30, 2020	55,409,744	22,315,512

[i] In February 2020, the Company completed a private placement of 8,932,000 common shares for aggregate gross proceeds of CDN\$2,333,000 (US\$1,697,080). In connection with this offering, the Company paid cash commissions and fees of CDN\$69,616 (US\$51,281). A director of the Company subscribed to and received 1,579,000 shares in exchange for cash of CDN\$394,750 (US\$300,010). The net proceeds of the private placements are used for general working capital purposes. In addition, the Company issued warrants to purchase up to 4,466,000 common shares of the Company, exercisable at CDN \$0.45 for a period of 3 years following the investment date. The warrants will vest in 33% increments on each anniversary of the date of the transaction. The proceeds of the February 2020 private placement will be, in part, used to fund the development and marketing of various product launches.

(US dollars)

**9. 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.

At September 30, 2020, 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, 2019	3,181,000	\$0.26	5.75
Issued <sup>(i)(ii)(iii)</sup>	445,833	\$0.21	7.67
Forfeited	(278,500)	N/A	N/A
<b>Balance, September 30, 2020</b>	<b>3,348,333</b>	<b>\$0.26</b>	<b>5.48</b>
Exercisable, September 30, 2020	2,146,083	\$0.24	6.21

- (i) During the quarter ended March 31, 2020, 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 \$21,623 using the Black-Scholes option pricing model, with \$21,497 expensed related to current and prior period grants. The remaining expense will be recognized over the balance of the vesting periods.
- (ii) During the quarter ended June 30, 2020, the Company granted a total of 112,500 stock options. The options vest 1/3 on each annual anniversary for three years. The fair value of the stock options was estimated to be \$5,805 using the Black-Scholes option pricing model, with \$17,065 expensed related to current and prior period grants. The remaining expense will be recognized over the balance of the vesting periods.
- (iii) During the quarter ended September 30, 2020, the Company granted a total of 118,333 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 \$10,372 using the Black-Scholes option pricing model, with \$23,185 expensed related to current and prior period grants. The remaining expense will be recognized over the balance of the vesting periods.

(US dollars)

**9. SHAREHOLDERS' EQUITY (continued)**

**(b) Stock options (continued)**

The fair value of the options granted during the nine-months ended September 30, 2020 was determined using the Black-Scholes option pricing model using the following assumptions:

	September 30, 2020
Weighted average risk-free interest rate	1.00%
Weighted average expected volatility	83%
Expected life	8 years
Expected dividend yield	\$Nil
Weighted average share price at date of grant	\$0.21
Weighted average exercise price at date of grant	\$0.21
Forfeiture rate	49%

**(c) Warrants**

The Company issued warrants effective January 30, 2020 and February 6, 2020 to purchase up to 4,466,000 common shares of the Company, exercisable at CDN\$0.45 for a period of 3 years following the date of the transaction. The warrants issued in 2020 vest in 33% increments on each anniversary of the date of the transaction and expire 36 months after the date of the transaction. The warrants issued in December 2018 vest in 20% increments on each anniversary of the closing date of the transaction and expire on December 13, 2023.

At September 30, 2020, the number of outstanding warrants of which 350,000 are exercisable for an equivalent number of common shares is as follows:

	Number of warrants	Weighted average exercise price Cdn \$
Balance, December 31, 2019	1,750,000	\$ 0.35
Issued, January and February 2020	4,466,000	\$ 0.45
Balance, September 30, 2020	6,216,000	\$ 0.42

The fair value of the warrants issued during 2020 are estimated at USD\$464,832 using the Black-Scholes model. The weighted average fair value of the warrants issued in 2020 is estimated using the Black-Scholes valuation method and based on the following assumptions:

	2020
Weighted average risk-free interest rate	1.45%
Weighted average expected volatility	87%
Expected life	3 years
Expected dividend yield	\$Nil
Weighted average share price at date of grant (Cdn \$)	\$0.23
Weighted average exercise price at date of grant (Cdn \$)	\$0.45
Fair value (Cdn \$)	\$0.09
Forfeiture rate	\$Nil

*(US dollars)*

## **10. 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 her 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.

There are no payable balances to related parties at September 30, 2020 (2019 - \$Nil). At September 30, 2020 there is an outstanding non-interest-bearing loan payable to a director of the Company for \$50,000 (2019 - \$80,000), which is due on or before May 2022, and is secured by certain instrument sets. Additionally, at September 30, 2020 there is an outstanding secured promissory note to a director of the Company with a principal amount of \$1,600,000 which bears an interest rate of 9% per annum and is due on or before June 2022. At September 30, 2020 the accrued interest related to the loan is \$493,500 (2019 - \$421,500). In response to the Covid-19 pandemic, the related party forgave the Q3 2020 interest. 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, 2020 is \$390,649 which includes \$1,975 stock-based compensation (nine months ended September 30, 2019 - \$373,555 which includes \$8,216 stock-based compensation).

In February 2020, the Company completed a private placement of 8,932,000 common shares for aggregate gross proceeds of CDN\$2,333,000 (US\$1,697,080). In connection with this offering, the Company paid cash commissions and fees of CDN\$69,616 (US\$51,281). A director of the Company subscribed to and received 1,579,000 shares in exchange for cash of CDN\$394,750 (US\$300,010).

## **11. 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.

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(US dollars)

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

Basic and diluted loss per share for the nine-month periods ended September 30, 2020 and September 30, 2019 is as follows:

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Net loss	\$ (189,905)	\$ (667,105)
Weighted average common shares outstanding	54,376,738	46,448,525
Basic and diluted income (loss) per share	\$ (0.00)	\$ (0.01)

Outstanding options and warrants have not been included in the calculation of the diluted loss per share as they would have the effect of being anti-dilutive.

**13. LEASES**

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.

The Company adopted the modified retrospective approach of IFRS 16 on its effective date, January 1, 2019. The Company 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 was recognized as an adjustment to equity at the date of transition, January 1, 2019. The amount of the adjustment was \$33,367. The asset is recorded in property and equipment as right of use asset – buildings. The liability was 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 Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16. At this date, the Company has also elected to measure the right-of-use asset at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

The lease liability is secured by the related underlying asset. Future minimum lease payments as of September 30, 2020 are as follows:

	Within 1 year	1-2 years	2-3 years	3-4 years	Total
Lease payments	\$135,295	\$139,354	\$95,214	\$ –	\$369,863
Finance charges	14,843	8,011	1,635	–	24,489
	\$150,138	\$147,365	\$96,849	\$ –	\$394,352

Payments related to short-term leases were expensed on a straight-line basis. The expense related to these payments not included in the lease liability was \$5,067 for the period ended September 30, 2020.

*(US dollars)*

#### **14. OTHER INCOME**

##### **Reversal of previously recorded liability**

During the nine months ended September 30, 2020, the Company recorded a gain on extinguishment of a payable in the amount of \$160,908 (2019 – \$Nil). As a result of certain events related to the supplier, the Company was no longer liable to the supplier during the second quarter of 2020.

##### **Payroll Protection Program Loan**

As a result of the closure of many businesses due to Covid-19, the United States government offered relief through the Small Business Administration (SBA). In April 2020, the Company applied for and received a \$10,000 SBA advance under the Economic Recovery Act and a \$450,877 SBA loan under the CARES Act. This Payroll Protection Program loan is designed to fund payroll and other qualified expenses during the period of the business shutdown mandated by state governments. The loan is forgivable if used for qualified expenses such as payroll, rent, and utility expenses. If these conditions are not met, the Company is required to return a portion of the principal and interest at a rate of 1%. The Company has used and will continue to use a substantial portion of the loan for its intended purpose and does not expect to pay back a material amount of the loan. The Company has elected to use the 24-week covered period starting on May 1, 2020 and ending on October 15, 2020. In accordance with International Accounting Standard 20, the Company used the income approach to recognize the government grant over the 24-week covered period to match the grant with the related costs. The grant is recognized as Deferred Income in the consolidated statement of financial position and will be amortized to Other Income over the 24-week period. During the three and nine-month periods ended September 30, 2020, the Company recognized \$344,967 and \$403,381 respectively (three and nine-month periods ended September 30, 2019 – \$Nil) in Other Income.

#### **15. SUBSEQUENT EVENTS**

The United States is currently amid a surge in Covid-19 cases that are inundating hospitals and healthcare providers. We anticipate government restrictions that may include travel restrictions and the closure of hospitals to elective surgery. This may cause disruptions to our customers, distributors, employees and suppliers. We are evaluating the government's response daily. The Company will take steps to protect our employees that may affect productivity. The Company has added suppliers to further stabilize our supply chain. The Company is in contact with its distributors and if hospital closures take place, they will take steps to move inventory and instruments to hospitals that remain open. If the government significantly restricts the ability to do business, the Company believes that they will again offer support in the form of grants and loans.