**AURORA SPINE CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2021**

This management's discussion and analysis of financial conditions and results of operations ("MD&A") is intended to assist you in understanding the corporate structure of Aurora Spine Corporation ("the Company", "we", "our") and evaluating the changes in the Company's financial condition and operations for the three and nine-month periods ended September 30, 2021.

The MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2020 and the unaudited condensed interim consolidated financial statements for the three and nine-month periods ended September 30, 2021 prepared in accordance with IFRS together with the accompanying notes. Additional information is available on SEDAR at www.sedar.com, and on our website at www.aurora-spine.com.

The Company's functional currency and presentation currency is US dollars, and all amounts are shown in US dollars unless otherwise indicated. The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

This MD&A is prepared as of November 15, 2021.

## FORWARD-LOOKING STATEMENTS

This document may contain forward-looking statements that reflect management's current expectations with regard to future events. Such forward-looking statements are subject to certain factors and involve a number of risks and uncertainties. Actual results may differ from expected results. Factors that could cause our results, our operations and future events to change materially compared to the expectations expressed or implied by such forward-looking statements include, but are not limited to, market risk, interest rate risk, currency risk, credit risk and liquidity risk, uncertainty regarding additional funding requirements and our ability to obtain such funding and uncertainty regarding sales as well as those risks and uncertainties mentioned herein. We believe that the assumptions and expectations reflected herein are reasonable, but no assurance can be given that these assumptions and expectations will be correct. You should not place undue reliance on forward-looking statements as the plans, assumptions, intentions, or expectations upon which they are based might not occur. Forward looking information is provided as of the date of this MD&A and we do not intend, and do not assume any obligation, to update this forward-looking information, except as required by law.

## CORPORATE STRUCTURE

The Company was incorporated under the laws of the Province of Ontario on July 4, 2013. The registered head office of the Company is located at 20 Holly Street, Suite 300, Toronto, Ontario, M4S 3B1. The principal office of the Company is located at 1930 Palomar Point Way, Suite 103, Carlsbad, California, 92008. The Company was formed as part of a reorganization to carry out a Public Offering ("Public Offering") and to acquire all of the outstanding capital stock of Aurora Spine, Inc. ("Aurora").

The Company filed an Initial Public Offering Prospectus on August 27, 2013 with securities regulatory authorities in the provinces of British Columbia, Alberta and Ontario which was successfully completed on September 5, 2013 for gross proceeds of US$3,605,000. Trading began on September 10, 2013.

Also in September 2013, the Company and its wholly-owned subsidiary AS Acquisition Corp. (a newly-formed Nevada corporation) and Aurora entered into a merger agreement which set forth the terms and conditions pursuant to which the Company acquired all of the issued and outstanding shares of capital stock of Aurora in exchange for the issuance to the existing shareholders of an aggregate of 7,272,059 Common Shares and 6,107,141 Restricted Voting Shares. Pursuant to the merger agreement, Aurora and AS Acquisition Corp. merged under the laws of the State of Nevada, with Aurora being the surviving entity. The reorganization closed immediately prior to the closing of the Public Offering and was intended to be treated as an integrated transaction with the Public Offering for U.S. federal income tax purposes.

Between January 15, 2014 and December 31, 2018, the Company completed various private placements raising aggregate gross proceeds of CDN$17,520,854 (US$15,515,338), issuing a total of 26,849,474 common shares. The net proceeds of the private placements were used for general working capital purposes.

Additionally, on December 13, 2018, the Company issued to SILIF Corporation (SILIF) as consideration for the SILIF patent 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.

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).

On September 17, 2021, the Company completed a private placement. The Company issued 11,220,930 common shares and 8,976,743 warrants exercisable for an equivalent number of common shares for aggregate gross proceeds of US$5,116,048 (CDN$6,508,139). US$3,680,577 was allocated to common shares and US$1,435,471 was allocated to warrants. In connection with this offering, the Company paid commissions, fees, and incurred legal and other expenses of US$788,294 (CDN$1,002,766). The broker receives a fee of 7% if the investor warrants are exercised. Regarding the warrants, 8,415,697 are exercisable immediately and any time up to three years following the date of issuance at CDN$0.75 and 561,046 were issued to the broker and are exercisable commencing six months following the date of issuance to three years from the date of issuance at CDN$0.58. The broker warrants were valued at US$170,970 (CDN$217,491).

**BUSINESS OF AURORA**

Aurora is focused on bringing new solutions to the spinal implant market through a series of innovative, minimally invasive, regenerative spinal implant technologies. The Company's goal is to improve patients' quality of life by developing and distributing spinal implant products that relieve back pain and preserve spinal bone structure and anatomy. Once fully developed, we expect our product portfolio to primarily address the market need for minimally invasive spinal surgical devices.

The Company has acquired intellectual property from some of our founders as well as third parties. We also develop new IP, improve product design using trained physicians for product evaluation, undertake patent filing applications, and conduct marketing and distribution development. We are a registered ISO 13485 certified company. We received FDA approval for our first product, the Company's ZIP® Ultra Minimally Invasive Interspinous Fusion System (the "ZIP ULTRA®") on December 3, 2013.

**Our Products**

Our ISP ("interspinous process" or "ISP") lumbar fusion devices now include the ZIP®, the ZIP ULTRA®, the ZIP LP® and the ZIP-51®. Additionally, we currently offer a line of interbody products – the TiNano® product line including EOS, VOX, Echo, Echo SD and EchoXL for the lumbar section of the spine and Discovery for cervical procedures. The SOLO™ is an ALIF 3D printed stand-alone fusion device. For the sacroiliac joint, the SiLO™ is a posterior fusion device.

We continue to develop and enhance products that fall into one of four product lines which we intend to market over the next several years. These product lines are:

- ISP lumbar fusion devices
- Ti-Coated PEEK (polyether ether ketone) interbody cages
- Stand-alone ("SA") Cervical and Lumbar cages

- SI Joint fusion devices

In addition, Aurora markets certain third party developed products used during spine surgeries. Our major product groups are discussed below.

**ISP Products**

Our ISP devices are designed for patients suffering from degenerative disc disease whose pain has not been eliminated by non-surgical treatment methods. The vast majority of these patients get treated using open surgery to install pedicle screws and rods to fix and ultimately allow two or more vertebrae to fuse together.

Our ISP product design utilizes an interlocking two-piece design consisting of two titanium side plates with a hollow titanium core chamber to host bone or biologic grafting material. The side plates have been designed as solid geometries with proprietary swiveling spikes to aid in attachment to uneven bone surfaces. The outer portions of the device are durable enough to last a lifetime under both compressive and tensile loads, while still maintaining required stiffness in the interspinous space. The hollow core chamber will be available in a variety of diameters to fit most patient anatomies.

Our ISP devices are also designed with a proprietary mechanism along the barrel for locking the side plates together. We believe this is superior to our competitors' screw/nut locking mechanisms for permanence, stability and ease of implantation.

We currently offer a lower spine (lumbar) ISP device although some of our devices have been used mid-spine (thoracic). In the future, we may introduce a multi-segment ISP device that will cover a larger number of spine segments and be designed to allow surgeons to perform corrective procedures (e.g., for scoliosis) without pedicle fixation.

**Ti-PEEK Interbody Cages**

Interbody cage products are used to fill the space between vertebrae after degenerative disc material has been removed. The cages provide spacing and stability between the vertebrae while bone grows to complete the fusion process. In November 2013, we entered into an agreement with Intuitive Spine, LLC to purchase interbody cage devices for use in cervical spinal fusion procedures (“AURORA DISCOVERY” or “DISCOVERY”). DISCOVERY is a cervical intervertebral body fusion device consisting of teeth on the inferior and superior surfaces to prevent back out and migration. The implant design is rectangular with a hollow core for bone graft to promote integration and fusion between the endplates. The DISCOVERY cage products are constructed of radiolucent PEEK material. As a result of the DISCOVERY agreement, we acquired PEEK interbody cages and the instrument sets used to implant the cages and the U.S. Food and Drug Administration (“FDA”) 510(k) approval associated with the cages.

In February 2014, the Company began introduction of its sterile-packed titanium plasma spray coated (“TiNano®”) spinal infusion implants. TiNano® is the Company’s Titanium Plasma Spray coating on PEEK Interbody implants allowing for bone growth due to its porous structure. TiNano-coated implants provide the advantages of all implant materials, bone-titanium osseo-integration from the titanium coating, as well as the modulus and post-op imaging advantages of PEEK fusion implants. The Company uses the TiNano® technology in almost all of its interbody fusion devices, including configurations for Anterior Cervical (“ACIF”), Posterior Lumbar (“PLIF”), Transforaminal Lumbar (“TLIF”) and Direct Lateral (“DLIF”) interbody spacers.

**SA-ALIF Cages**

SA-ALIF technology allows for the cage, plate and screws to be integrated into a single unit; a feature some surgeons prefer. 3D Printed Stand-Alone ALIF Cage (SA-ALIF) are made of porous titanium and combine an integrated plate and spacer system that helps to preserve the natural anatomic profile while providing spinal column support and stability.

Anterior lumbar interbody fusion (ALIF) is a spine surgery that involves approaching the spine from the front (anterior) of the body to remove all or part of a herniated disc from in between two adjacent vertebrae (interbody) in

the lower back (lumbar spine), then fusing, or joining together, the vertebrae on either side of the remaining disc space using bone graft or bone graft substitute. Anterior approaches, such as in SA-ALIF, allow surgeons access to the discs at the front of the spine and do not require muscle stripping as in posterior approaches. SA-ALIF provides the surgeon with a clear approach to the lumbar spine.

Utilizing our ZIP® ISP platform in harmony with 3D Printed SA-ALIF Cage Technology allows Aurora to participate in the full procedure in a Lumbar fusion surgery, adding value to the patient, the doctor and the company. Multiple published clinical studies support the procedure, documenting positive clinical outcomes such as reduced blood loss, less time in the O.R., and shortened hospital stays as compared to traditional posterior fusion procedures.

**SI Joint Fusion**

SiLO™ is a single implant Posterior Si-Fusion System made of human cortical bone and was developed to provide a simple, safe & reproducible method of stabilizing and fusing the Sacroiliac Joint. SiLO™ is the only implant that was designed specifically for posterior sacroiliac joint fusions. The implant design consists of three levels of ridges along its circumferential solid body to increase implant retention and stability through its unique "Dowel Anchorage Design". The SiLO™ implant is shaped for enhanced 360-degree bone incorporation along with dual, vertical side-channels. These channels can hold additional bone graft material during implant insertion for enhanced stability.

**DEXA Technology**

The Company recorded an intangible for US patent #10,779,954 B1 titled "Body Density Scan Result-Matched Orthopedic Implants and Methods of Use". The patent will be utilized to create spinal implants that match the patient's specific bone density based on a DEXA Scan/T-score allowing for the best bone fusion treatment and most favorable outcome based on that patient's bone density.

Aurora's patented DEXA Technology™, which creates a series of implants manufactured with varying densities to match a patient's bone density and DEXA T-Score. By comparing and using a product that matches a patient's bone density, the technology should promote quicker bone growth and employ superior fixation. Aurora Spine's DEXA Technology™ is part of the company's advanced portfolio representing the future of Spinal and Orthopedic implants. Following fundamental principles of patent focused innovation, DEXA Technology™ was logically created and patented to combine the essential design benefits of conventional machining, 3D printing, and additive implant manufacturing. Aurora Spine's new DEXA Technology™ will provide surgeons with additional solutions in selecting the right implant for their patient. Traditionally, medical devices for spinal procedures are designed as 'one size fits all' and assumes that every patient's bone density is similar. The proprietary engineering behind Aurora's DEXA Technology™ is advancing the science of implant technology, and ultimately helping improve patient fusion rates and overall clinical outcomes.

The DEXA-C™ Cervical Interbody System is a porous 3D-printed intervertebral body fusion device that incorporates low-, mid-, or high-density lattice pattern options to support the matching of patients' bone quality utilizing Aurora's patented DEXA Technology™. The profile of the device is rectangular with a hollow core for bone graft to promote bone integration and fusion between the endplates. The device is available in various footprints and heights to accommodate variability among patients and is manufactured from titanium alloy per ASTM F3001.

**SPINAL IMPLANT MARKET**

**Product Regulation**

Sale of our products requires approval under the FD&C Act in the United States, registration and approval of a CE mark in the European Union, and similar regulatory approvals in other jurisdictions around the world. Further, our products require approval by the governing board of hospitals at which our implants will be used in surgery.

All of our products are classified as Class II devices in the United States. Class II devices require either approval or clearance from the U.S. Food and Drug Administration (FDA) before they can be marketed in the United States. Products that have substantial similarity to products that already have been approved by the FDA can obtain clearance

for sale through the Premarket Notification process under Section 510k of the FD&C Act. Devices that are not substantially similar to previously approved products must obtain FDA approval through the more rigorous, time-consuming and expensive Premarket Approval process, which in most cases requires extensive clinical trials.

We believe that all of our products that are currently in development have predicate devices already approved or cleared by the FDA, and that as a result we will be able to take advantage of the more streamlined Premarket Notification clearance process.

In the US, most spinal implants today are paid for by third-party payors, either private insurance companies or government programs, including Medicare, Medicaid, or state workers compensation programs. We believe that surgeons, hospitals, and ambulatory surgical centers can use current North American Spine Society ("NASS") and Medicare-approved payment codes with any of our proposed products, and that our products are reimbursable under both private and government-sponsored insurance plans.

**Surgical Solutions**

Spinal surgery has been used since the early 1900's to treat back pain and neck spinal pain. However, surgery can be expensive and complicated, and generally is recommended only when conventional therapies such as physical therapy, exercise, traction, bed rest, braces and steroid and non-steroid anti-inflammatory medications, have failed.

Lower back pain is generally considered one of the most widely experienced health problems in the United States and many parts of the world, and one of the most frequent conditions for which people see a physician or are absent from work. Other factors driving the growth of the global spinal fusion market are believed to be growing awareness about treatment of spinal disorders, rising income levels, rising obese populations and a rising number of spinal injuries resulting from increased use of machinery and motor vehicles in certain regions of the world.

**Spinal Fusion**

Spinal fusion is among the most common spinal surgeries performed today and is used primarily to eliminate the pain caused by abnormal motion of the vertebrae in a weak or unstable spine (caused by infections, tumors, or other degenerative conditions) and to treat spinal fractures. It is also used to treat spinal deformities such as scoliosis and kyphosis.

Spinal fusion is a surgical technique used to join two or more vertebrae. Spinal fusion works in conjunction with the body's natural bone growth processes to set up a biological response that causes a bone graft, using material implanted by the surgeon, to grow between the two vertebral elements and fuse the two vertebral elements together into one long bone, thereby stopping the motion that causes the pain. The fusion process typically takes six to twelve months after surgery to complete.

In most cases, spinal fusion is augmented by a process called fixation, which refers to the placement of permanent rigid or semi-rigid prosthetic devices made of titanium or other materials. These devices were developed in response to the need to limit compression on the affected vertebrae and stabilize them in order to facilitate bone fusion, without requiring the patient to be immobilized. These fusion/fixation devices include pedicle screws, rods or plates, cages constructed of PEEK and, more recently, ISP devices.

Spinal fusion techniques currently are used in both cervical and lumbar spines. Most fusions on the cervical spine are performed using anterior interbody fusion, in which, following an anterior discectomy, a bone graft is placed between two vertebrae and replaces the removed disc. During the healing process, the vertebrae grow together, creating a solid piece of bone out of the two vertebrae.

Three types of interbody fusion procedures are most commonly used today:

1. Anterior Lumbar Interbody Fusion, in which an abdominal incision is used to reach the lumbar spine;
2. Posterior Lumbar Interbody Fusion, in which an incision on the patient's back is used to reach the lumbar spine; and
3. Lateral Lumbar Interbody Fusion, in which a lateral incision is used to reach the lumbar spine.

One of the challenges for both surgeons and spinal implant device companies is to bridge the gap between patient satisfaction and clinical success. Early fusion procedures performed without fixation devices and using grafts of the patient's own bone required a secondary surgical site from which the bone would be harvested, and often suffered from stabilization issues during the period needed for vertebral fusion to occur. Plate devices and pedicle screws, while effective at stabilization, involve more anatomically invasive procedures and can involve extended recovery times.

**Other Surgical Options**

The growing need to identify better solutions for degenerative disc of the spine has led to innovation in less-invasive spinal fusion procedures, spinal navigation systems and robotics, non-fusion, motion-preserving devices, and advanced biological products, including allografts, synthetics, and bone-morphogenetic proteins ("BMPs"), which eliminate the need to harvest bone for grafts from the patient's own body.

In recent years, MIS devices have been introduced into the spinal implant market to provide a less invasive alternative to pedicle screw instrumentation in fusion procedures. ISP devices attach to the spine with a clamp, rather than screws, and utilize counter stresses to help maintain attachment. These devices are designed to provide the necessary fixation and stability, while preserving the patient's anatomy and reducing complications and recovery time. Also in recent years, so-called "motion preserving" techniques, such as artificial disc replacement, have begun to be offered as alternatives to fusion. These techniques have not yet been adopted on a widespread basis in the U.S. because, amongst other things, reimbursement by third-party payors has not been rapidly forthcoming and the advantages of these techniques over fusion have not been well established.

**The Changing Market**

Pedicle screw systems continue to dominate the spinal fusion market. However, the spinal fusion market appears to be moving toward newer technologies and more minimally invasive approaches to spinal fusion. We believe this is the reason pedicle screw fusion has been losing market share to newer technologies such as dynamic stabilization (motion preserving devices), ISP devices, stand-alone devices, artificial discs and other alternative solutions.

While some of these newer technologies have yet to be widely accepted for reimbursement by third-party payors, our experience is that current NASS and Medicare-approved payment codes are favorable to stand-alone devices, and we continue to see a surge of stand-alone technologies introduced into the market. It has also been our experience that current reimbursement codes favor ISP technology, and that surgeons, hospitals and ambulatory surgical centers are able to use current NASS and Medicare-approved payment codes with both stand-alone and ISP devices. We believe this will lead to continued growth for these technologies in the coming years.

**Competition**

The global spinal surgery market is characterized by strong competition. Management believes the top five companies account for more than 70% of the overall market, and that the FDA's reclassification of spinal fusion devices from Class III to Class II in 2007 has attracted, and will continue to attract, new entrants in the market. We continue to see product launches and an increased focus on research and development activities, and we anticipate that intense competition between the new entrants and existing companies may lead to pricing pressure on all companies in the future.

Companies such as Medtronic Inc., Zimmer Biomet and DePuy Synthes, are the leading players in the global market for spinal surgery devices and represent a significant portion of the total market share. We believe that this is due, in large part, to their broad portfolios of spinal fusion devices. Other companies with significant market shares include Stryker Corporation and NuVasive Inc.

We believe that the worldwide spinal implant market currently includes over 200 pedicle screw systems, but that less than fifteen active competitors offer ISP fusion devices in the United States.

Further information and analysis regarding the Company’s overall performance is discussed below.

## HIGHLIGHTS DURING THE PERIOD

Strong sales in August and September helped the company record the highest quarter in sales this year. Sales increased 19% over Q2 as more surgeons and pain interventionalist add Aurora products to their patient offerings. The sales were a result of surgeon training in the first half of the year, and the Company plans to continue training through the remainder of the year. Sales were driven by Aurora's Zip product and make up 38% of sales for the quarter. The did a private placement of stock in Q3 to increase inventory, launch new products and add sales staff.

The Company's efforts have resulted in the following key highlights for Q3:

- **Sales Growth –** The Company has experienced quarter over quarter sales growth in 2021. Sales grew 19% from Q2 to Q3.
- **Increased Margin and Aurora Product Sales–** Sales of Aurora products made up 69% of sales for the quarter and as high as 75% in September. This increased margins to 46.8% for Q3. Zip sales made up 38% of the total sales.
- **SiLO™ sales increase –** Sales of the SiLO™ SI joint fusion device increased by 54% over Q2.
- **IRB –** The Company has received Institutional Review Board (IRB) approval for its new multicenter study of its ZIP™ Interspinous Fixation device for patients suffering from back pain due to symptomatic degenerative disc disease. The company has started enrolling patients in the study.
- **Training** – Aurora continued to conduct advanced training sessions and cadaver labs that introduced leading orthopedic, neurosurgical, and pain management physicians to the ZIP™ and SiLO™ implants.
- **Private Placement –** The company executed a private placement for US$5.1 million, the proceeds of which will be used to increase inventory, expand the salesforce, and fund research and development.

## OVERALL PERFORMANCE

Aurora Spine Corporation's unaudited interim condensed consolidated financial statements are presented in US dollars which is its functional currency.

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

## SELECTED BALANCE SHEET INFORMATION

The following table summarizes selected key financial data.

| As at | September 30, 2021<br>$ | December 31, 2020<br>$ | December 31, 2019<br>$ |
|---|---|---|---|
| Cash | 3,668,706 | 1,710,146 | 444,741 |
| Trade receivables | 2,672,912 | 1,658,124 | 2,443,096 |
| Prepaid expenses and deposits | 610,785 | 231,256 | 262,217 |
| Inventory | 1,813,208 | 1,596,365 | 1,529,474 |
| Current assets | 8,765,611 | 5,195,891 | 4,679,528 |
| Intangible assets | 857,985 | 868,946 | 838,915 |
| Property and equipment | 1,058,634 | 1,090,312 | 1,155,249 |
| Total assets | 10,682,230 | 7,155,149 | 6,673,692 |
| Current liabilities | 1,934,038 | 1,561,470 | 2,523,223 |
| Long-term liabilities | 2,316,129 | 2,312,374 | 2,382,444 |
| Share capital | 24,907,100 | 22,007,747 | 20,669,713 |

## ANALYSIS OF FINANCIAL CONDITION AND FINANCIAL PERFORMANCE

Since inception, Aurora has focused on research and development followed by marketing and surgeon education to grow our business. The Company has expanded the range of products offered, applied for and received FDA approval for several products and increased the number of hospital approvals.

The Company has several FDA cleared products and procedures, all designed to improve spine patient outcomes, drive continued surgeon interests, and provide unique benefits that deliver value to hospitals and patients. Inventory is on-hand to support future sales and hospital approvals have increased.

## SELECTED QUARTERLY INFORMATION

The Company's functional currency is the US dollar (USD). The functional currency of the Company's US subsidiary Aurora is USD.

Operating results for each quarter for the last two fiscal years are presented in the table below.

| Quarters ended | **September 30, 2021** **$** | June 30, 2021 $ | March 31, 2021 $ | December 31, 2020 $ | **September 30, 2020** **$** | June 30, 2020 $ | March 31, 2020 $ | December 31, 2019 $ |
|---|---|---|---|---|---|---|---|---|
| Revenue | **2,892,540** | 2,425,397 | 2,261,890 | 2,437,228 | **2,368,692** | 1,580,450 | 2,259,251 | 2,632,649 |
| Cost of goods sold | **(1,536,244)** | (1,421,393) | (1,151,572) | (1,533,983) | **(1,230,824)** | (934,058) | (1,478,037) | (2,550,418) |
| Gross profit | **1,356,296** | 1,004,004 | 1,110,318 | 903,245 | **1,137,868** | 646,392 | 781,214 | 82,231 |
| Operating expenses | **1,724,513** | 1,879,479 | 1,672,131 | 1,400,165 | **1,146,672** | 831,239 | 1341757 | 669,399* |
| EBITDAC** | **(171,247)** | (480,837) | (191,429) | 185,104 | **477,060** | 170,549 | (294,721) | (837,587) |
| Net income (loss) | **(368,217)** | (700,405) | (386,743) | (42,181) | **336,163** | 34,475 | (560,543) | (587,168) |
| Basic and diluted income (loss) per share*** | **(0.02)** | (0.01) | (0.01) | — | **0.01** | (0.00) | (0.01) | (0.03) |

***** Adjusted by gains and (losses) on sale of equipment.
****** EBITDAC is a non-GAAP, non IFRS measure defined as Earnings before Interest, Tax, Depreciation, Amortization and Stock based compensation. This amount includes Gains (losses) on sale of property and equipment and Other income (expense).
******* 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.

Since the Company has been in the development stage, quarterly operating results have varied in the past and may vary substantially in the future. Accordingly, the information above is not necessarily indicative of results for any future quarter.

During 2021, the company took steps to normalize the business as the effects of Covid-19 receded. This included increasing staff, allocating more resources to marketing, cadaver courses, CME labs, and making strides in R&D.

### Comparative - Three Months Ended September 30, 2021 and 2020

During the three months ended September 30, 2021 the Company generated revenue in the amount of $2,892,540 compared to $2,368,692 during the same period the previous year, an increase of $523,848. Revenue in Q3 2020 was affected by hospital closures due to Covid-19. Revenue is returning to normal in 2021 and the Company has taken steps to increasingly work with surgery centers that are less prone to shutdowns.

During the current quarter, cost of sales was $1,536,244 and gross profit was $1,356,296 as compared to $1,230,824 and $1,137,868, respectively in the comparable period last year. Gross margin in the current period was 46.8% of revenue compared to 48.0% of revenue in the comparable period. Gross margins have been affected by higher shipping costs as we add surgeons and move sets more often. Royalty costs have increased as we sell more Aurora products that are covered by royalties. Cost for third party products have also increased due to supply chain issues as a result of Covid-19.

As revenues return to normal the Company has increased staff in sales and marketing. Costs are also higher in R&D as the company designs and commercializes new products in the spine and SI joint markets, including products recently approved by the FDA. Salaries in the current quarter were $451,148 compared to $278,441 in the comparable prior period. The Company expects to continue to hire more support staff and engineers. R&D expense in the current period was $215,736 compared to $69,388 in the comparable prior period. With the release of three new products expected by year end the Company is incurring more expense for product design and testing. Marketing expense in the current period was $229,505 as compared to $7,248 in the comparable prior period. Marketing and doctor training

has continued in Q3 as we continue to expand into the pain market with our ZIP and SiLO devices. Trade shows have reopened, and the Company has attended numerous shows in 2021.

During the current quarter, EBITDAC was ($171,247), compared to $477,060 during the comparable prior period. Covid-19 restrictions in 2020 required cost reductions to conserve resources in a time of uncertainty. As revenue returned to normal, the Company returned to its business strategy of launching innovative products and developing a pain management division. These expenses include patent and trademark expense as well as FDA approvals for new products. Professional fees were $82,115 during the current quarter compared to $72,631 during the comparable prior period. Professional fees include legal fees and costs related to regulatory and financial audits.

**Cash Flows – Three Months Ended September 30, 2021 and 2020**

Cash flows used in operating activities during the three months ended September 30, 2021, were $1,370,297. Cash flows used in operating activities primarily consisted of the net loss adjusted for non-cash items (depreciation, amortization, non-cash stock-based compensation and loan interest) and the changes in working capital components during the period (increases in trade and other receivables and inventory; decreases in prepaid expenses and deposits, trade and other payables). The primary drivers of the change was the increase in accounts receivable and inventory.

Cash flows from operating activities during the three months ended September 30, 2020 were $304,273, primarily consisting of the net income increased by depreciation, amortization, non-cash stock based compensation and loan interest and the changes in working capital components during the period which include decreases in trade and other receivables and deferred other income, and increase in prepaid expenses and deposits, trade and other payables, and inventory. The Payroll Protection Program Loan was recorded as a government grant using the income approach. The loan amount of $344,967 was amortized in the current period to Other Income.

Cash flows from financing activities during the three months ended September 30, 2021, were $4,462,867, resulting from the private placement offset by the share issuance costs. Additionally, the Company received $7,005 related to the exercise of stock options in exchange for 42,336 common shares. Cash used in financing activities during the comparable period for 2020 was $40,261 resulting from lease payments and repayment of amounts due to related parties.

Cash flows used in investing activities during the three months ended September 30, 2021, were $68,189 due to additions to property and equipment, adding additional trays and instruments and the scrapping of equipment. Cash flows used in investing activities in the comparable period in 2020 were $121,501 due to additions to property and equipment.

**Comparative – Nine-Months Ended September 30, 2021 and 2020**

During the nine-months ended September 30, 2021, we generated revenues in the amount of $7,579,828 compared to $6,208,392 during the same period the previous year, an increase of $1,371,436. Revenue was affected by Covid-19 closures in 2020. As revenue returned to normal in 2021 the company continued its strategy of designing new innovative devices and training more doctors in the pain market to use its ZIP and SiLO devices.

During the nine-months ended September 30, 2021, cost of sales was $4,109,208 and gross profit was $3,470,620 as compared to $3,642,919 and $2,565,473, respectively in the comparable period last year. Gross margin in the current period was 45.8% of revenue compared to 41.3% in the comparable period. Sales of Aurora products increased from 49% of total sales in the first nine months of 2020 to 66% of sales in the first nine months of 2021. This reduction in lower margin 3rd party products increased the overall margin.

During the nine-months ended September 30, 2021, EBITDAC was $(843,512), compared to $352,887 during the same period the previous year. Covid-19 restrictions in 2020 required cost reductions to conserve resources in a time of uncertainty. As revenue returned to normal, the Company returned to its business strategy of launching innovative products and developing a pain management division. These expenses include patent and trademark expense as well as FDA approvals for the new products. As revenues returned to normal the Company increased support staff in sales and marketing and filled open positions in engineering and sales. Operating expenses during the current period were

$5,276,121 compared to $3,319,667 during the same period the previous year. Operating expenses increased by $1,956,454. There were increases in salaries, travel, consulting fees, marketing, R&D, professional fees.

The company filled open positions in sales, engineering, and support staff. Salaries expense during the current period was $1,158,721 compared to $847,078 during the comparable period. The increase reflects the addition of several employees in 2021. The Company expects to continue hiring support staff and engineers in 2021.

Consulting fees were $302,847 during the current period compared to $261,355 during the comparable period. The increase relates to product development design activity and the IRB study of the ZIP device.

Marketing expenses were $614,437 in the current period and $18,515 in the comparable period. Marketing and doctor training has continued in 2021 as we expand into the pain market with our ZIP and SiLO devices.

Research and development expense during the current period was $656,877 compared to $216,048 during the comparable period. Research and development costs increased as the Company prepared for the release of three new products by year end.

Professional Fees were $433,344 in the current period and $216,048 in the comparable period. Professional fees include legal fees and costs related to regulatory and financial audits.

**Cash Flows – Nine-Months Ended September 30, 2021 and 2020**

Cash flows used in operating activities during the nine-months ended September 30, 2021, were $2,071,956 primarily consisting of the operating loss decreased by depreciation, amortization, non-cash stock-based compensation and loan interest and adjusted for the changes in working capital components during the period which include increases in trade and other receivables, trade and other payables and inventory.

Cash flows from operating activities during the nine-months ended September 30, 2020 were $525,746, primarily consisting of the operating loss increased by depreciation, amortization, non-cash stock based compensation and loan interest and the changes in working capital components during the period which include decreases in trade and other receivables, prepaid expenses and deposits and trade and other payables and an increase in inventory and deferred other income. The Payroll Protection Program Loan was recorded as a government grant using the income approach. The loan amount of $460,877 was recorded as deferred income, and $344,967 was amortized in the current period to other income.

Cash flows from financing activities during the nine-months ended September 30, 2021 were $4,381,926 resulting from the private placement offset by the share issuance costs. Cash from financing activities during the nine-months ended September 30, 2020 were $1,525,511, primarily from receipt of $1,697,000 private placement funds offset by issuance costs of $51,281, payments of amounts due to related parties and lease payments.

Cash flows used in investing activities during the nine-months ended September 30, 2021 were $351,410 due to additions to property and equipment, adding additional trays and instruments. Cash flows used in investing activities during the nine-months ended September 30, 2020 were $410,446 resulting primarily from the purchase of trays, instruments and other property and equipment.

**Covid-19 Impact**

The outbreak of the coronavirus, or Covid-19, has added uncertainty to the short-term and mid-term outlook for the Company. The Company is experiencing minor disruptions in the supply chain, the manufacture and shipment of products. The extent to which Covid-19 will impact the Company's results will depend on future developments that are highly uncertain and difficult to predict.

The Company has taken steps to add new suppliers to reduce some of the time needed to manufacture inventory and instruments. Supply chains for the newly released products and those to be released in 2021 have already been secured.

## LIQUIDITY AND CAPITAL RESOURCES

Our objective is to maintain sufficient liquid resources to meet operational requirements. As at September 30, 2021, we had cash of $3,668,706. Working capital at September 30, 2021 aggregated to $6,831,573. Accounts Receivable was $2,672,912 at September 30, 2021 compared to $1,658,124 at December 31, 2020.

In February 2021, we received a Payroll Protection Program (PPP) loan of $350,140 from the US government's Small Business Administration (SBA) related to the Covid-19 pandemic to cover payroll, rent and utilities during 2021. The terms of the loan provide for forgiveness if the funds are used for the intended purpose. The Company intends to use the loan for the intended purposes and does not expect to pay back a material amount of the loan.

In April, 2020, the Company received a PPP loan in the amount of $450,877. The Company used the funds for the intended purpose and recorded the amount in Other Income in 2020. On June 24, 2021, the Company was informed by the SBA that the entire loan of $450,877 was forgiven and there is no balance due on the loan.

Our principal uses of cash since inception have been for the development of our products, general and administrative activities, compensation and advertising and marketing efforts. Going forward, additional funds will be needed for continued product development and marketing as we continue our commercialization efforts.

In the event we are unable to generate significant revenue and achieve profitable net income in the long term, we will rely on equity and debt financing to fund our cash requirements. There is no guarantee that our operations will yield positive results in the future. There can be no assurance that new capital will be available as necessary to meet our continuing expenditures (if required), or if the capital is available, that it will be on terms acceptable to us.

## COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

### Lease Commitment

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 were effective June 1, 2017 and terminate on March 31, 2023. The new lease reduces the monthly base rent from $28,718 for 17,288 square feet to $7,650 for 5,464 square feet, plus Common Area Maintenance ("CAM") charges and a termination fee of $5,000 for the first 22 months. 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, 2021 are as follows:

| September 30, 2021 | Within 1 year | 1-2 years | 2-3 years | 3-4years | Total |
|---|---|---|---|---|---|
| Lease payments | $ 128,145 | $ 83,312 | $ — | $ — | $ 211,457 |
| Finance charges | 6,572 | 1,269 | — | — | 7,841 |
| | $ 134,717 | $ 84,581 | $ — | $ — | $ 219,298 |

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 $3,000 for the nine-months ended September 30, 2021.

**ZIP ULTRA™ Device – Royalty Agreements**

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.

**Intervertebral Body Fusion Device – Commitment and Royalty Agreement**

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 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 terminated July 2020.

**Intervertebral Cervical Fusion Device – Commitment and Royalty Agreement**

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.

**Other**

The Company had no other commitments for material capital expenditures, no contingencies, and no off-balance sheet arrangements, other than the above-mentioned items.

**TRANSACTIONS BETWEEN RELATED PARTIES**

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 trade balances to related parties at September 30, 2021 (2020 - $Nil). At September 30, 2021 there is an outstanding non-interest-bearing loan payable to a director of the Company for $20,000 (2020 - $42,500), which is due on or before May 2022, and is secured by certain instrument sets. Additionally, at September 30, 2021 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 2023. At September 30, 2021 the accrued interest related to the loan is $637,500 (2020 - $529,500).

The remuneration of key management of the Company for the nine-months ended September 30, 2021 is $397,569 which includes $4,362 stock-based compensation (nine months ended September 30, 2020 – $390,649 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).

## PROPOSED CORPORATE TRANSACTIONS

The Company is not a party to any proposed transaction that may influence the financial condition, results of operations or cash flows or qualify as a proposed asset or business combination.

## ACCOUNTING POLICIES

The Company has adopted accounting policies with respect to revenue, cost of sales, inventories, intellectual property and stock options which are discussed below. Foreign currency translation and recent accounting pronouncements are also discussed below.

### 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.

### 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 those inventories are recognized as an expense in the period that the related revenue is recognized.

### Property and equipment

Property and equipment are recorded at cost and are depreciated over the estimated useful lives of the assets.

Management 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.

### 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 remaining useful life.

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.

**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.

If an asset or cash-generating unit's recoverable amount is estimated to be less than it's 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.

**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.

To determine whether to recognize 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 satisfies a performance obligation

Revenue is recognized when the Company satisfies performance obligations by transferring the promised goods to the customer or when the product has been used in surgery.

**Cost of goods sold**

Cost of goods sold includes the cost of sold manufactured finished goods inventory and the related packaging, distribution and transportation costs. Additionally, inventory adjustments related to excess, expired or obsolete inventory are expensed to cost of goods sold.

**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, considering 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.

**Share-based compensation**

When 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 considered 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. If 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.

When 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.

When 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 share-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. Equity settled stock-based payments are reflected in share-based reserve, 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.

**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 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.

**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 trade 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 based on 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.

**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, except for 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.

**Derecognition of financial liabilities**

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

**Financial instruments**

The financial instruments of the Company are classified as follows:

| | IFRS 9 | |
|---|---|---|
| | Classification | Measurement |
| Cash | FVTPL | Fair value |
| Trade and other receivables | Amortized cost | Amortized cost |
| Due to related parties | Other financial liabilities | Amortized cost |
| Trade and other payables | Other financial liabilities | Amortized cost |

The Company classifies financial instruments recognized at fair value in accordance with a fair value hierarchy that include the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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.

Trade 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. Due to related parties 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.

**Income taxes**

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

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 loss 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 enough taxable earnings will be available to allow all or part of the asset to be recovered.

**Leases**

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 – Leases. The Company has adopted the modified retrospective approach from 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.

## 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.

**Covid-19 risk**

The recent outbreak of Covid-19 has spread across the globe and impacted worldwide economic activity. Covid-19 poses a risk to the Company and its employees, suppliers, customers, and partners and may prevent normal business activity for an indefinite period of time. The governments in the United States and Canada may mandate shutdowns, restrict travel, and impose quarantines.

The extent to which the spread of Covid-19 will impact the Company's business and operations will depend on future developments which are highly uncertain and cannot be predicted at this time. If restrictions are imposed on the Company, its suppliers, or its customers there is no way to predict the duration or scope of the restrictions. In particular, the spread of Covid-19 could materially impact the Company's business, employee health, workforce productivity, create shortages, impact supplier and distributor relationships, decrease supply chain stability, increase cost for insurance, reduce travel; all of which may have a material and adverse effect on the business.

**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.

**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.

**Trade receivables**

The exposure to credit risk for the Company's trade receivables is minimal. The Company has some concentration of trade receivables in four customers that make up 40% 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 all customers for credit risk.

Trade Receivables

| Description | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Current | $ 1,941,056 | $ 1,077,805 |
| Past due 1-30 days | 331,414 | 486,621 |
| Past due 31-60 days | 262,141 | 89,112 |
| Over 60 days | 160,226 | 14,391 |
| Trade receivable balance and maximum credit risk | $ 2,694,837 | $ 1,667,929 |
| Excepted credit loss | $ (21,925) | $ (9,805) |
| Net receivables, net of expected credit loss | $ 2,672,912 | $ 1,658,124 |

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 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 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% | 86% |
| Gross carrying amount | $ 1,941,056 | $ 331,414 | $ 262,141 | $ 160,226 |
| Loss allowance provision, end of period | — | — | — | $ 21,925 |

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 Covid-19 and its impact on customers. The Company is actively monitoring the credit risk of 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, 2021 and December 31, 2020 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.

The Company's current assets exceed current liabilities by $6,831,573 (December 31, 2020 - $3,634,421). 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, 2021 | December 31, 2020 |
|---|---|---|---|
| Trade and other payables | Due within one year | $ 1,914,038 | $ 1,531,470 |
| Leases | Due within one year | $ 78,629 | $ 170,374 |
| Related party loans | Due within one year | $ 20,000 | $ 30,000 |
| Related party loans | Due within two years | $ 2,237,500 | $ 2,142,000 |

**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, 2021 and December 31, 2020 was $6,432,063 and $3,281,305, respectively.

**FINANCIAL INSTRUMENTS**

We initially measure financial instruments at fair value. Fair value estimates of financial instruments are made at a specific point in time based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. Our financial instruments consist of cash, trade receivables, due to related parties and trade and other payables.

The fair value of cash, trade receivables, due to related parties and trade and other payables are approximately equal to their carrying value due to their short-term nature.

We classify financial instruments recognized at fair value in accordance with a fair value hierarchy that includes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets at Fair Value Through Profit or Loss ("FVTPL") are measured at fair value at the balance sheet date 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.

**OUTSTANDING SHARE DATA**

**(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, 2020 | 55,467,244 | 22,007,747 |
| Stock options exercised [i] | 42,336 | 7,050 |
| Private placement [ii] | 11,220,930 | 3,680,577 |
| Share issuance costs [ii] | — | (788,274) |
| September 30, 2021 | 66,730,510 | 24,907,100 |

(i) During the nine-months ended September 30, 2021, pursuant to the exercise of 42,336 stock options, the Company issued 42,336 common shares for aggregate gross proceeds of CDN$9,081 (USD$7,050).

(ii) On September 17, 2021, the Company completed a private placement. The Company issued 11,220,930 common shares and 8,976,743 warrants exercisable for an equivalent number of common shares for aggregate gross proceeds of US$5,116,048 (CDN$6,508,139). US$3,680,577 was allocated to common shares and US$1,435,471 was allocated to warrants (see note 9(c) warrants). In connection with this offering, the Company paid commissions, fees, and incurred legal and other expenses of US$788,294 (CDN$1,002,766). Regarding the warrants, 8,415,697 are exercisable immediately and any time up to three years following the date of issuance at CDN$0.75 and 561,046 were issued to the broker and are exercisable commencing six months following the date of issuance to three years from the date of issuance at CDN$0.58.

**(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, 2021, 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, 2020 | 3,411,917 | $ | 0.26 | 5.08 |
| Issued(i)(ii)(iii) | 775,833 | $ | 0.63 | 7.63 |
| Exercised | (42,336) | $ | 0.21 | N/A |
| Forfeited | (332,164) | | N/A | N/A |
| Balance, September 30, 2021 | 3,813,250 | $ | 0.33 | 4.84 |
| Exercisable, September 30, 2021 | 2,448,611 | $ | 0.25 | 5.67 |

(i) During the quarter ended March 31, 2021, the Company granted a total of 252,083 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 $50,152 using the Black-Scholes option pricing model, with $23,660 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, 2021, the Company granted a total of 296,250 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 $99,976 using the Black-Scholes option pricing model, with $49,444 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, 2021, the Company granted a total of 227,500 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 $66,690 using the Black-Scholes option pricing model, with $27,221 expensed related to current and prior period grants. The remaining expense will be recognized over the balance of the vesting periods.

The fair value of the options granted during the nine-months ended September 30, 2021 was determined using the Black-Scholes option pricing model using the following assumptions:

| | | September 30, 2021 |
|---|---|---|
| Weighted average risk-free interest rate | | 1.11% |
| Expected volatility | | 87% |
| Expected life | | 8 years |
| Expected dividend yield | $ | Nil |
| Weighted average share price at date of grant | $ | 0.63 |
| Weighted average exercise price at date of grant | $ | 0.63 |
| Forfeiture rate | | 44% |

**(c) Warrants**

The Company issued 1,750,000 warrants effective December 13, 2018 to purchase an equivalent number of common shares of the Company, exercisable at CDN$0.35 for a period of 5 years following the date of the transaction. The fair value was estimated at $365,716 USD using the Black-Scholes model. They expire on December 13, 2023 and vest in 20% increments on each anniversary of the closing date of the transaction.

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 fair value was estimated at $318,491 USD using the Black-Scholes model. These warrants vest in 33% increments on each anniversary of the date of the transaction and expire 36 months after the date of the transaction.

The Company issued warrants effective September 17, 2021 to purchase 8,976,743 common shares of the Company, 8,415,697 are exercisable immediately and any time up to three years following the date of issuance at CDN$0.75 and 561,046 were issued to the broker and are exercisable commencing six months following the date of issuance to three years from the date of issuance at CDN$0.58.

At September 30, 2021, the number of outstanding warrants of which 11,165,410 are exercisable for an equivalent number of common shares is as follows:

| | Number of warrants | | Weighted average exercise price (Cdn $) |
|---|---|---|---|
| Balance, December 31, 2020 | 6,216,000 | $ | 0.42 |
| Issued, September 17, 2021 | 8,976,743 | $ | 0.74 |
| Balance, September 30, 2021 | 15,192,743 | $ | 0.61 |

## INTELLECTUAL PROPERTY

The Company capitalizes the cost of acquiring intellectual property. Carrying amounts are subject to impairment review annually and whenever there is an indication that an intangible asset may be impaired and where conditions exist, impairment is recognized. During the three and nine-month period ended September 30, 2021, the Company recognized $3,654 and $10,960 of amortization expense (three and nine-months ended September 30, 2020 - $3,654 and $10,960). No impairment was recognized as of September 30, 2021 and Dec 31, 2020.

## ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was prepared as of November 15, 2021. The Company regularly discloses additional information through the filing of press releases, material change reports, financial statements, quarterly and annual reports on SEDAR at www.sedar.com, and on our website at www.aurora-spine.com.

This report was approved on November 15, 2021.