

# AURORA SPINE CORPORATION

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2022

(UNAUDITED)

### NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not audited these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants.

**AURORA SPINE CORPORATION**  
**Condensed Interim Consolidated Statements of Financial Position (Unaudited)**

(US dollars)

	Notes	September 30, 2022	December 31, 2021
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	5	\$ 644,669	\$ 3,172,575
Trade and other receivables, net	4	3,736,634	2,668,174
Prepaid expenses and deposits		678,150	674,687
Inventory	6	2,708,416	1,889,640
Total current assets		7,767,869	8,405,076
<b>Non-current</b>			
Intangible assets	7	945,464	854,331
Property and equipment, net	3, 8	2,202,319	1,304,242
Total non-current assets		3,147,783	2,158,573
Total assets		\$ 10,915,652	\$ 10,563,649
<b>LIABILITIES</b>			
<b>Current</b>			
Trade and other payables		\$ 3,136,410	\$ 2,614,781
Due to related parties	10	—	12,500
Total current liabilities		3,136,410	2,627,281
<b>Non-current</b>			
Lease	13	385,376	93,556
Due to related parties	10	2,384,000	2,273,500
Total non-current liabilities		2,769,376	2,367,056
Total liabilities		5,905,786	4,994,337
<b>SHAREHOLDERS' EQUITY</b>			
Common shares	9	25,087,474	25,087,474
Warrants	9	2,114,525	2,114,525
Contributed surplus		1,063,016	960,565
Deficit		(23,255,149)	(22,593,252)
Total shareholders' equity		5,009,866	5,569,312
Total liabilities and shareholders' equity		\$ 10,915,652	\$ 10,563,649
Commitments	11		

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

These condensed interim consolidated financial statements were approved by the Board of Directors on November 18, 2022.

/s/ Trent Northcutt                      /s/ David Rosenkrantz  
Director    Director

**AURORA SPINE CORPORATION**  
**Condensed Interim Consolidated Statements of Comprehensive Loss (Unaudited)**

(US dollars)

	Notes	Three-months ended September 30, 2022	Three-months ended September 30, 2021	Nine-months ended September 30, 2022	Nine-months ended September 30, 2021
<b>REVENUE</b>		\$ 3,648,680	\$ 2,892,540	\$ 11,267,811	\$ 7,579,828
Cost of goods sold	6	1,706,677	1,536,244	5,283,716	4,109,208
<b>GROSS PROFIT</b>		<u>1,942,003</u>	<u>1,356,296</u>	<u>5,984,095</u>	<u>3,470,620</u>
<b>OPERATING EXPENSES</b>					
Executive compensation	10	120,470	138,263	370,545	393,207
Salaries		591,636	451,148	1,902,834	1,158,721
Consulting fees		85,333	17,029	284,364	302,847
General and administrative		334,438	294,984	1,100,272	821,632
Research and development		156,272	215,736	674,300	656,877
Marketing		312,976	229,505	866,536	614,437
Professional fees		63,750	82,115	409,984	433,344
Stock based compensation	9, 10	37,996	27,220	102,451	100,325
Insurance		126,441	98,764	350,094	283,207
Depreciation and amortization	7, 8	112,738	102,902	339,004	309,769
Depreciation of right-of-use asset	3, 8	74,653	28,094	191,294	84,281
Interest, lease liability	3	4,850	2,779	13,739	9,623
Interest, other	10	36,102	35,974	108,410	107,851
<b>TOTAL OPERATING EXPENSES</b>		<u>2,057,655</u>	<u>1,724,513</u>	<u>6,713,827</u>	<u>5,276,121</u>
<b>OPERATING INCOME (LOSS)</b>		<u>(115,652)</u>	<u>(368,217)</u>	<u>(729,732)</u>	<u>(1,805,501)</u>
Other Income (expense)	14	—	—	67,835	350,140
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)</b>		<u>\$ (115,652)</u>	<u>\$ (368,217)</u>	<u>\$ (661,897)</u>	<u>\$ (1,455,361)</u>
Basic and diluted income (loss) per share	12	\$ (0.00)	\$ (0.02)	\$ (0.01)	\$ (0.03)

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

**AURORA SPINE CORPORATION**

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

*(US dollars)*

	Notes	Common shares			Contributed surplus	Deficit	Total
		Share Number	Amount	Warrants			
Balance, January 1, 2021		55,467,244	\$ 22,007,747	\$ 684,207	\$ 823,278	\$ (20,233,927)	\$ 3,281,305
Private placement, September 2021		11,220,930	3,680,577	1,606,441	—	—	5,287,018
Share issuance costs		—	(788,274)	—	—	—	(788,274)
Stock based compensation		—	—	—	100,325	—	100,325
Stock options exercised		42,336	7,050	—	—	—	7,050
Total comprehensive income (loss)		—	—	—	—	(1,455,361)	(1,455,361)
Balance, September 30, 2021		66,730,510	\$ 24,907,100	\$ 2,290,648	\$ 923,603	\$ (21,689,288)	\$ 6,432,063
Balance, January 1, 2022		66,730,510	\$ 25,087,474	\$ 2,114,525	\$ 960,565	\$ (22,593,252)	\$ 5,569,312
Stock based compensation	9	—	—	—	102,451	—	102,451
Total comprehensive income (loss)		—	—	—	—	(661,897)	(661,897)
Balance, September 30, 2022		66,730,510	\$ 25,087,474	\$ 2,114,525	\$ 1,063,016	\$ (23,255,149)	\$ 5,009,866

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

**AURORA SPINE CORPORATION**  
**Condensed Interim Consolidated Statements of Cash Flows (Unaudited)**

(US dollars)

	Notes	Three-month period ended September 30, 2022	Three-month period ended September 30, 2021	Nine-month period ended September 30, 2022	Nine-month period ended September 30, 2021
<b>OPERATING ACTIVITIES</b>					
Net income (loss)		\$ (115,652)	\$ (368,217)	\$ (661,897)	\$(1,455,361)
Adjustments					
Depreciation and amortization	7, 8	112,738	102,902	339,005	309,769
Depreciation of right-of-use asset: Building	8	74,653	28,094	191,294	84,281
Interest expense on lease liability	3, 13	4,850	2,779	13,739	9,623
Stock based compensation	9	37,996	27,220	102,451	100,324
Loan interest		36,000	36,000	108,000	108,000
Changes in working capital components					
Trade and other receivables		321,343	(959,548)	(1,068,459)	(1,014,788)
Prepaid expenses and deposits		21,152	23,475	(3,463)	(379,529)
Inventory		148,314	(162,100)	(818,776)	(216,843)
Trade and other payables	11	(299,853)	(100,902)	445,120	382,568
Deferred other income (expense)	14		—	—	—
Cash flows from (used in) operating activities		341,541	(1,370,297)	(1,352,986)	(2,071,956)
<b>FINANCING ACTIVITIES</b>					
Repayment of amounts due to related parties	10	—	(7,500)	(10,000)	(22,500)
Principal portion paid on lease liability	3, 13	(196,683)	(32,564)	(323,068)	(91,745)
Interest paid on lease liability	3, 13	(4,850)	(2,779)	(13,739)	(9,623)
Stock Options Exercised	9	—	6,966	—	7,050
Issuance of common shares/warrants	9, 15	—	5,287,018	—	5,287,018
Share issuance costs	9, 15	—	(788,274)	—	(788,274)
Cash flows from (used in) financing activities		(201,533)	4,462,867	(346,807)	4,381,926
<b>INVESTING ACTIVITIES</b>					
Additions to property and equipment	8	(254,319)	(68,189)	(828,113)	(351,410)
Cash flows from (used in) investing activities		(254,319)	(68,189)	(828,113)	(351,410)
Net change in cash		(114,311)	3,024,381	(2,527,906)	1,958,560
Cash, beginning of period		758,980	644,325	3,172,575	1,710,146
Cash, end of period		\$ 644,669	\$ 3,668,706	\$ 644,669	\$ 3,668,706
<b>Supplemental disclosure of cash flow information:</b>					
Cash paid during the period for:					
Interest		\$ (94)	\$ (56)	\$ (280)	\$ (988)
Income Taxes		\$ —	\$ —	\$ —	\$ —

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

## **1. CORPORATE INFORMATION**

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

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

The Company is engaged in the development and distribution of minimally invasive, interspinous fusion systems and devices. The address of the Company's registered head office is 20 Holly Street, Suite 300, Toronto, Ontario, M4S 3B1.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors on November 18, 2022.

## **2. BASIS OF PREPARATION**

### *Statement of compliance*

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). These condensed interim consolidated financial statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2021. The Company’s significant accounting policies as presented in Note 3 of the financial statements for the year ended December 31, 2021 have been consistently applied in the preparation of these condensed interim consolidated financial statements.

### *Going concern*

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

### *Basis of measurement and reporting*

These condensed interim consolidated financial statements are prepared using the historical cost method and are presented in US dollars, which is the Company’s functional currency.

### *Basis of consolidation*

These condensed interim consolidated financial statements include the accounts of the Company, its United States wholly owned subsidiary Aurora Spine, Inc., and its European wholly owned subsidiary, Aurora Spine Europe Limited. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated at consolidation. These subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern, directly or indirectly, the financial and operating policies of an entity. The existence and effect of potential voting rights that are exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are consolidated from the date that control is obtained by the Company and deconsolidated from the date when control ceases. In December 2017, the Company ceased operations of its wholly owned European subsidiary, Aurora Spine Europe Limited, but has not formally dissolved the inactive subsidiary to date.

## 2. BASIS OF PREPARATION (continued)

### *Use of estimates and judgement*

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

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

In the event that actual results differ from the assumptions made, relate to, but not limited to the following:

#### **(a) Fair value of financial instruments**

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty and are heavily dependent on the assumptions made.

#### **(b) Impairment of non-financial assets**

Impairment exists when the carrying value of an asset exceeds its estimated recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The recoverable amount is subject to management estimates and determining if impairment exists is subject to judgement.

#### **(c) Contingencies**

Contingencies are accrued on an undiscounted basis when it is probable that a liability for past events exists and the liability can be reasonably estimated. In determining whether a liability exists, the Company is required to make judgments as to the probability of future events that may occur.

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

As discussed above, these consolidated financial statements are prepared on a going concern basis in accordance with IFRS, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment in determining assumptions for cash flow projections, such as anticipated financing, deferral of commitments, negotiation of supplier terms and future commitments to assess the Company's ability to continue as a going concern.

#### **(e) Share based payments and warrants**

The fair value of each option granted is estimated at the grant date using the Black-Scholes option pricing model. The key assumptions are forfeiture rate, interest rate, dividend yield and expected volatility which is used to calculate the fair value of the instruments on the grant date. The model includes the historical volatility of similar companies over the expected term of the options and warrants granted. If management estimates that historical volatility requires an adjustment, they consider the historical volatility of the share price of comparable companies at similar stages of development, as well as the volatility estimates derived from the fair value calculation of financial instruments and equity instruments in periods when this information is available.

## 2. BASIS OF PREPARATION (continued)

### (f) Intangible assets and their impairment

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

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

### (g) Inventory

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

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

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

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

### (i) Leases

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

### (j) Revenue

The Company holds some third-party inventory on consignment. Aurora believes that it is the principle in the sale of its third-party products to the end customer. The contracts allow for Aurora to control and benefit from the assets that are transferred to the end customer; however, there is judgement in assessing if the company is principle or agent.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The principle accounting policies applied in the preparation of these condensed interim consolidated financial statements are set out below.

**(a) Cash and cash equivalents**

Cash and cash equivalents include demand deposits held with banks with original maturities of less than 90 days. Cash equivalents are carried at fair value.

**(b) Inventories**

Inventories are initially recognized at cost and subsequently stated at the lower of cost and net realizable value. The Company's inventory primarily consists of implants and consumables (devices used in surgery). Costs of each type of inventory is determined using the weighted average method and includes amounts incurred to acquire, sterilize, and prepare the products for sale. The Company outsources its manufacturing operations.

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

The Company holds some third-party inventory on consignment which is sold to customers. The consignment inventory is not included in the Company's inventory as the third-party retains title to the inventory. The Company records inventory on the statement of financial positions when legal ownership is transferred.

**(c) Property and equipment**

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

The Company reviews the estimated useful lives, residual values and depreciation method at each year end, accounting for the effect of any changes in estimate on a prospective basis.

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

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(d) Intangible assets and research costs (continued)**

Annually, management assesses and estimates impairment and each asset's remaining useful life and this is based on the following judgements:

- i) The intellectual rights are not expected to expire in the near term; and
- ii) The Company is continuing with further development and sales related to the assets.

Research costs are expensed as incurred. Expenditures on development activities are capitalized only if the product or process is technically and commercially feasible, development costs can be measured reliably, future economic benefits are probable, the Company intends to use or sell the asset, and the Company intends and has enough resources to complete development.

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

At the end of each reporting period, management reviews the carrying amounts of its tangible and intangible assets to determine if those assets may have suffered an impairment loss. If it appears so, management estimates the asset's recoverable amount to determine the extent of the impairment loss, if any. When it is not possible to estimate a specific asset's recoverable amount, management estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, assets are also allocated to specific cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the Company discounts estimated future cash flows to their present value using a pre-tax discount rate reflecting current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If an asset or cash-generating unit's recoverable amount is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount, recognizing an impairment loss immediately in the statements of comprehensive loss. Where an impairment loss subsequently reverses, the carrying amount is increased to the revised estimate of its recoverable amount, without exceeding the carrying amount that would have been determined if no impairment loss had been recognized in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statements of comprehensive loss.

**(f) Leases**

The Company has five leases which fall within the scope of IFRS 16. Additional information regarding the lease is in Note 14 – Leases. 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. 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 between 4.80% to 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 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 as short-term leases.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (g) Revenue

The Company derives its revenues primarily from the sale of spinal surgery implants, consumable products used in spinal surgeries and service revenue for referring products to its customers. Revenue from the sale of products and services are recognized when the significant risks and rewards of ownership have been transferred to the customer, the sales price and costs can be measured reliably, and it is probable that the economic benefits will flow to the Company. These criteria are generally met at the time the product is delivered to the customer, title and risk have passed to the customer and acceptance of the product has been obtained.

### 4. FINANCIAL RISK MANAGEMENT

The Company manages risk through established policies that provide management control to mitigate risk over operations. These policies provide for risk identification and assessment, and that appropriate and effective procedures are in place to mitigate risk. Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, market risk is segregated into three categories: other market risk, interest rate risk and currency risk. Other risks associated with financial instruments include credit risk, concentration, and liquidity risk.

#### Covid-19 risk

Covid-19 continues to have an impact on 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. 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.

#### Reimbursement Rates

If reimbursement rates paid by third-party payers are reduced or if third-party payers otherwise restrain our ability to obtain or provide services to members, our business could be harmed. Changes to Medicare and Medicaid rates or methods governing Medicare and Medicaid payments for our services could materially adversely affect our 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.

##### [i] Cash

The Company minimizes its exposure to credit risk by keeping all cash as cash on deposit in a FDIC (Federal Deposit Insurance Corporation) US-based bank. Management assesses the credit risk as negligible.

##### [ii] Trade receivables

The exposure to credit risk for the Company's trade receivables is concentration risk and the going concern of its customers. The Company has some concentration of trade receivables in four customers that make up 56% of the receivables. One of these customers is having cashflow challenges but the Company expects that the balance will be collected. Historically, there has been no credit loss with respect to these customers and the Company continues to

**AURORA SPINE CORPORATION****Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)***(US dollars)***4. FINANCIAL RISK MANAGEMENT (continued)**

monitor their health and credit ratios and will make updates to expected credit loss as needed. 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, 2022	December 31, 2021
Current	\$ 1,408,624	\$ 1,531,536
Past due 1-30 days	1,140,517	427,782
Past due 31-60 days	307,543	407,100
Over 60 days	961,910	383,716
Trade receivable balance and maximum credit risk	\$ 3,818,594	\$ 2,750,134
Expected credit loss	\$ (81,960)	\$ (81,960)
Net receivables, net of expected credit loss	\$ 3,736,634	\$ 2,668,174

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 currently set at 5% of receivables over 60 days and is based on the Company's historical collection and loss experience and incorporates forward-looking factors, where appropriate.

Individual receivables which are known to be uncollectible are expensed by reducing the carrying amount to zero. Other receivables are assessed collectively to determine whether there is objective evidence that an impairment has occurred but has not yet been identified. The Company maintains an expected credit loss that represents an estimate of the uncollectible amounts based on larger of historical experience or its objective impairment evidence. The loss allowance provision is reduced by collections of receivables after the reporting date. Historically accounts are of high quality and take 60-90 days to pay.

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
Gross carrying amount	\$ 1,408,624	1,140,517	307,543	\$ 961,910
Expected credit loss, end of period	\$ —	\$ —	\$ —	\$ 81,960
Calculated loss provision rate	0%	0%	0%	8.5%

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 all customers.

**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, 2022 and December 31, 2021 and as such not deemed to be a risk to be hedged at the present time.

**4. FINANCIAL RISK MANAGEMENT (continued)****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 \$4,631,459 (December 31, 2021 - \$5,777,795). 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, 2022	December 31, 2021
Trade and other payables	Due within one year	\$ 3,136,410	\$ 2,614,781
Leases	Due within one year	\$ 385,376	\$ 93,556
Related party loans	Due within one year	\$ —	\$ 12,500
Related party loans	Due within two years	\$ 2,384,000	\$ 2,273,500

**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, contributed surplus and deficit, which at September 30, 2022 and December 31, 2021 was \$5,009,866 and \$5,569,312, respectively.

**5. CASH**

	September 30, 2022	December 31, 2021
Cash	\$ 644,669	\$ 3,172,575

Cash is held at a US-based federally insured bank. There are no restrictions on cash. The cash held at banks may earn interest at floating rates based on daily bank deposits. Interest earned through September 30, 2022, was \$280. Interest earned during 2021 was \$1,041.

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

The Company categorizes inventory as follows:

	September 30, 2022	December 31, 2021
TiNano PEEK implants	\$ 430,003	\$ 482,759
ZIP implants	1,157,902	822,825
Titanium implants	573,539	137,240
Bio/Bone Dowel/Consumables	240,080	224,212
WIP	306,892	222,604
Total	\$ 2,708,416	\$ 1,889,640

Inventory is expensed to cost of goods sold upon the sale of the product or service. During the nine-months ended September 30, 2022 the amount expensed to cost of goods sold is \$5,283,716 (nine-months September 30, 2021 - \$4,109,208). During the nine-months ended September 30, 2022 and the year ended December 31, 2021, the Company recognized inventory impairments of \$Nil and \$40,326, respectively charged to cost of goods sold. The write downs were the result of inventory not expected to be sold, not suitable for re-sterilization, scrap or obsolete.

**7. INTANGIBLE ASSETS**

The following comprises intangible assets:

	September 30, 2022	December 31, 2021
Opening balance	\$ 854,331	\$ 868,947
Acquisition costs	102,093	—
Amortization costs	(10,960)	(14,615)
Ending balance	\$ 945,464	\$ 854,331

Carrying amounts are subject to annual impairment review and whenever there is an indication that an intangible asset may be impaired, a charge is recognized. No impairment was recognized as of September 30, 2022 and December 31, 2021.

On June 30, 2022, the Company increased its intangible for legal and regulatory fees related to the SiLO TFX product. The amount of \$102,093 was capitalized in Q2 2022.

On December 31, 2020, 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 technology is in the development phase and will be used to create new products and enhance existing products. The Company has capitalized the costs of the patent and will continue to capitalize pre-production costs associated with bringing a product to market, provided the criteria for capitalization under IAS 38 are continued to be met in the future.

**AURORA SPINE CORPORATION**

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

(US dollars)

**8. PROPERTY AND EQUIPMENT**

Property and equipment at September 30, 2022 is comprised of the following:

	Trays and Instruments	Computer Equipment	Furniture and Fixtures	Automobiles	Leaseholds	ROU Asset - Building	Total
<b>Cost</b>							
December 31, 2021	\$ 5,148,474	\$ 102,614	\$ 56,130	\$ 23,157	\$ 6,783	\$ 604,987	\$ 5,942,145
Additions	720,694	5,323	—	—	—	691,397	1,417,414
Disposals	(163,333)	—	—	—	—	—	(163,333)
September 30, 2022	5,705,835	107,937	56,130	23,157	6,783	1,296,384	7,196,226
<b>Accumulated depreciation</b>							
December 31, 2021	4,095,447	96,241	49,163	13,893	5,766	377,393	4,637,903
Disposals	(163,333)	—	—	—	—	—	(163,333)
Depreciation for the period	313,072	3,514	6,967	3,473	1,017	191,294	519,337
September 30, 2022	4,245,186	99,755	56,130	17,366	6,783	568,687	4,993,907
<b>Net book value</b>							
September 30, 2022	\$ 1,460,649	\$ 8,182	\$ —	\$ 5,791	\$ —	\$ 727,697	\$ 2,202,319

During the nine-month period ended September 30, 2022, \$163,333 of assets were written off. These assets were fully depreciated at the time of disposal (\$Nil during the nine-month period ended September 30, 2021)

**9. SHAREHOLDERS' EQUITY**

**(a) Share capital**

The authorized share capital of the Company consists of an unlimited number of voting common shares, an unlimited number of restricted voting common shares, and an unlimited number of preferred shares issuable in series. Each voting common share carries the right to one vote. Restricted voting common shares outstanding each carries the same voting right as the voting common shares, except does not carry the right to vote in respect of the election of directors of the Company. There are no preferred shares issued and outstanding.

	Common Shares	
	#	\$
September 30 2022 and December 31, 2021	66,730,510	25,087,474

**(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

**AURORA SPINE CORPORATION**

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

(US dollars)

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.

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

**Stock options (continued)**

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, 2022, 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, 2021	4,029,750	\$ 0.32	4.82
Issued(i)(ii)(iii)	392,500	\$ 0.35	7.63
Exercised	—	\$ 0.00	N/A
Forfeited	(280,000)	N/A	N/A
Balance, September 30, 2022	4,142,250	\$ 0.33	4.32
Exercisable, September 30, 2022	2,879,194	\$ 0.27	5.21

- (i) During the quarter ended March 31, 2022, the Company granted a total of 213,750 stock options. The options vest 1/3 on each annual anniversary for three years. The fair value of the stock options was estimated to be \$29,598 using the Black-Scholes option pricing model. Expense recorded is related to the current and prior period grants as options vest over several years. The Company recorded \$37,081 of expense 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, 2022, the Company granted a total of 110,000 stock options. The options vest 1/3 on each annual anniversary for three years. The fair value of the stock options was estimated to be \$13,536 using the Black-Scholes option pricing model. Expense recorded is related to the current and prior period grants as options vest over several years. The Company recorded \$27,374 of expense 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, 2022, the Company granted a total of 68,750 stock options. The options vest 1/3 on each annual anniversary for three years. The fair value of the stock options was estimated to be \$14,077 using the Black-Scholes option pricing model. Expense recorded is related to the current and prior period grants as options vest over several years. The Company recorded \$37,996 of expense 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, 2022, was determined using the Black-Scholes option pricing model using the following assumptions:

	September 30, 2022
Weighted average risk-free interest rate	2.31 %
Weighted average expected volatility	86 %
Expected life	8 years
Expected dividend yield	Nil
Weighted average share price at date of grant	\$ 0.34
Weighted average exercise price at date of grant	\$ 0.34
Forfeiture rate	54 %

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

The Company issued 1,750,000 warrants exercisable at CDN\$0.35 effective December 13, 2018. These warrants entitle the holders to subscribe to an equivalent number of common shares and 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. 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. Of these, 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 currently are exercisable up to three years following the date of issuance at CDN\$0.58.

At September 30, 2022, the number of outstanding warrants of which 13,004,076 are exercisable for an equivalent number of common shares is as follows:

	Number of warrants	Weighted average exercise price CDN \$
Balance, September 30, 2022 and December 31, 2021	15,192,743	\$ 0.61

**10. RELATED PARTY TRANSACTIONS**

The Company's related parties include key management and personnel that have authority and responsibility for planning, directing, and controlling the activities of the Company, directly or indirectly. Key management are the members of the Board of Directors, the chief executive officer, the chief financial officer, 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.

At September 30, 2022 and December 31, 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 2024. At September 30, 2022, the accrued interest related to the loan is \$781,500 (December 2021 - \$673,500). The note is secured by the tangible and intangible assets of the Company.

The remuneration of key management of the Company for the nine-months ended September 30, 2022, is \$372,455 which includes \$1,910 stock-based compensation (nine-months ended September 30, 2021 - \$390,649 which includes \$1,975 stock-based compensation).

**11. COMMITMENTS**

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.

**11. COMMITMENTS (continued)**

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. Royalties of \$25,826 were paid during the nine-months ended September 30, 2022 (\$20,603 during the nine months ended September 30, 2021).

On September 27, 2021, the Company entered into an asset agreement whereby the Company has agreed to pay a royalty payment of 3% of net sales of the product for a period of 10 years following commercialization and issued 50,000 stock options upon execution and will grant up to an additional 300,000 stock options based on the achievement of specific milestones.

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

Basic and diluted loss per share for the nine-month periods ended September 30, 2022, and September 30, 2021, is as follows:

	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Net loss	\$ (661,897)	\$ (1,455,361)
Weighted average common shares outstanding	66,730,510	56,044,227
Basic and diluted income (loss) per share	\$ (0.01)	\$ (0.03)

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

**13. LEASES**

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%.

At September 30, 2022, the liability related to the right of use assets is \$855,781 of which \$399,206 is non-current and \$456,575 is current and included in trade and other payables.

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.

**AURORA SPINE CORPORATION****Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)***(US dollars)***13. LEASES (continued)**

The lease liability is secured by the related underlying asset. Future minimum lease payments as of September 30, 2022, are as follows:

	Within 1	1-2 years	2-3 years	3-4 years	4-5 years	Total
	year					
Lease payments	\$ 244,069	\$ 143,791	\$ 115,960	\$ 112,859	\$ 43,830	\$ 660,509
Finance charges	13,854	7,867	4,709	2,287	244	28,961
	\$ 257,923	\$ 151,658	\$ 120,669	\$ 115,146	\$ 44,074	\$ 689,470

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 \$Nil for the period ended September 30, 2022.

**14. OTHER INCOME**

In June 2022, the Company dissolved a vendor relationship that resulted in \$67,835 in payments due to the vendor being forgiven. This is recorded in other income.

In February 2021, the Company applied for and received a second Payroll Protection Program Loan (PPP) for \$350,140. This Payroll Protection Program loan is designed to fund payroll and other qualified expenses during the period of the business shutdown mandated by state governments. During the nine-month period ended September 30, 2021, the Company recognized \$350,140 in Other Income related to the PPP loan.

In March 2022, the Company was informed by the Small Business Administration (SBA) that the Payroll Protection Program (PPP) loan received in 2021 for \$350,140 was forgiven and there is no balance owed on the loan.