

**Aurora Spine Corporation**  
**Consolidated Financial Statements**

*For the years ended December 31, 2021 and 2020*

To the Shareholders of Aurora Spine Corporation:

## Opinion

We have audited the consolidated financial statements of Aurora Spine Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and December 31, 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

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

## Other Information

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

*MNP LLP*

Waterloo, Ontario  
April 29, 2022

Chartered Professional Accountants  
Licensed Public Accountants

**MNP**

**AURORA SPINE CORPORATION**  
**Consolidated Statements of Financial Position**  
**As at December 31, 2021 and 2020**

(US dollars)

	Notes	2021	2020
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	5	\$ 3,172,575	\$ 1,710,146
Trade receivables, net	4	2,668,174	1,658,124
Prepaid expenses and deposits		674,687	231,256
Inventory	6	1,889,640	1,596,365
Total current assets		<u>8,405,076</u>	<u>5,195,891</u>
<b>Non-current</b>			
Intangible assets	7	854,331	868,946
Property and equipment, net	8	1,304,242	1,090,312
Total non-current assets		<u>2,158,573</u>	<u>1,959,258</u>
Total assets		<u>\$ 10,563,649</u>	<u>\$ 7,155,149</u>
<b>LIABILITIES</b>			
<b>Current</b>			
Trade and other payables		\$ 2,614,781	\$ 1,531,470
Due to related parties	10	12,500	30,000
Total current liabilities		<u>2,627,281</u>	<u>1,561,470</u>
<b>Non-current</b>			
Leases	14	93,556	170,374
Due to related parties	10	2,273,500	2,142,000
Total non-current liabilities		<u>2,367,056</u>	<u>2,312,374</u>
Total liabilities		<u>4,994,337</u>	<u>3,873,844</u>
<b>SHAREHOLDERS' EQUITY</b>			
Common shares	9	25,087,474	22,007,747
Warrants	9	2,114,525	684,207
Share-based compensation reserve		960,565	823,278
Deficit		(22,593,252)	(20,233,927)
Total shareholders' equity		<u>5,569,312</u>	<u>3,281,305</u>
Total liabilities and shareholders' equity		<u>\$ 10,563,649</u>	<u>\$ 7,155,149</u>
Commitments	11		

These consolidated financial statements were approved by the Board of Directors on April 28, 2022.

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

/s/ Trent Northcutt  
 Director

/s/ David Rosenkrantz  
 Director

**AURORA SPINE CORPORATION**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**Years ended December 31, 2021 and 2020**

(US dollars)

	Notes	December 31, 2021	December 31, 2020
<b>SALES</b>	3	\$ 10,544,807	\$ 8,645,621
Cost of goods sold	6	5,711,255	5,176,902
<b>GROSS PROFIT</b>		<u>4,833,552</u>	<u>3,468,719</u>
<b>OPERATING EXPENSES</b>			
Executive compensation	10	533,637	513,434
Salaries		1,695,606	1,199,965
Consulting fees		462,128	406,022
General and administrative		1,777,642	1,072,059
Research and development		941,303	286,247
Marketing		799,929	106,009
Share-based compensation	9	141,456	92,821
Insurance		383,529	366,022
Depreciation and amortization	7,8	648,687	589,541
Interest		159,100	87,714
<b>TOTAL OPERATING EXPENSES</b>		<u>7,543,017</u>	<u>4,719,833</u>
<b>OPERATING LOSS</b>		<u>(2,709,465)</u>	<u>(1,251,114)</u>
Other Income	15	350,140	1,019,029
<b>NET LOSS AND COMPREHENSIVE LOSS</b>		<u>\$ (2,359,325)</u>	<u>\$ (232,085)</u>
Basic and diluted loss per share	12	\$ (0.04)	\$ (0.00)

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

**AURORA SPINE CORPORATION**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**Years ended December 31, 2021 and 2020**

(US dollars)

	Notes	Common Shares		Warrants	Share-based Compensation Reserve	Deficit	Total
		Share Number	Amount				
Balance, January 1, 2020		46,477,744	\$ 20,669,713	\$ 365,716	\$ 734,438	\$ (20,001,842)	\$ 1,768,025
Private placement, February 2020	9	8,932,000	1,378,589	318,491	—	—	1,697,080
Share issuance cost	9	—	(51,281)	—	—	—	(51,281)
Stock options exercised	9	57,500	10,726	—	(3,981)	—	6,745
Share-based compensation		—	—	—	92,821	—	92,821
Total comprehensive loss		—	—	—	—	(232,085)	(232,085)
Balance, December 31, 2020		<u>55,467,244</u>	<u>22,007,747</u>	<u>684,207</u>	<u>823,278</u>	<u>(20,233,927)</u>	<u>3,281,305</u>
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	3,623,850	1,492,209	—	—	5,116,059
Share issuance cost	9	—	(555,424)	(240,357)	—	—	(795,781)
Broker warrants		—	—	178,466	—	—	178,466
Stock options exercised		42,336	11,301	—	(4,169)	—	7,132
Share-based compensation	9	—	—	—	141,456	—	141,456
Total comprehensive loss		—	—	—	—	(2,359,325)	(2,359,325)
Balance, December 31, 2021		<u>66,730,510</u>	<u>25,087,474</u>	<u>2,114,525</u>	<u>960,565</u>	<u>(22,593,252)</u>	<u>5,569,312</u>

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

**AURORA SPINE CORPORATION**  
**Consolidated Statements of Cash Flows**  
**Years ended December 31, 2021 and 2020**

(US dollars)

	Notes	December 31, 2021	December 31, 2020
<b>OPERATING ACTIVITIES</b>			
Net loss		\$ (2,359,325)	\$ (232,085)
Adjustments			
Depreciation and amortization	7,8	496,042	477,168
Depreciation of right of use asset	8	152,645	112,374
Share-based compensation	9	141,456	92,821
(Gain) Loss on extinguishment of payable		—	(558,152)
Non-cash loan interest expense		144,000	72,000
Inventory obsolescence/excess/expiration	6	40,326	248,998
Changes in working capital components			
Trade and other receivables		(1,010,050)	784,972
Prepaid expenses and deposits		(443,431)	30,961
Inventory	6	(333,601)	(315,889)
Trade and other payables		1,042,590	(403,600)
Cash flows from operating activities		<u>(2,129,348)</u>	<u>309,568</u>
<b>FINANCING ACTIVITIES</b>			
Repayment of amounts due to related parties	10	(30,000)	(30,000)
Issuance of common shares	9	5,116,059	1,703,825
Share issuance costs	9	(610,182)	(51,281)
Principal paid on lease	14	(163,492)	(112,070)
Cash flows from financing activities		<u>4,312,385</u>	<u>1,510,474</u>
<b>INVESTING ACTIVITIES</b>			
Additions to property and equipment	8	(720,608)	(509,990)
Additions to intangibles		—	(44,646)
Cash flows used in investing activities		<u>(720,608)</u>	<u>(554,636)</u>
Net change in cash		1,462,429	1,265,405
Cash, beginning of year		1,710,146	444,741
Cash, end of year		<u>\$ 3,172,575</u>	<u>\$ 1,710,146</u>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid during the year for:			
Taxes		\$ 8,967	\$ 8,871
Cash paid for interest on lease obligations		\$ 14,616	\$ 18,918

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

*(US dollars)*

## **1. CORPORATE INFORMATION**

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

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

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

These consolidated financial statements were authorized for issuance by the Board of Directors on April 28, 2022.

## **2. BASIS OF PREPARATION**

### *Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and based on the going concern assumption.

### *Going concern*

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

### *Basis of consolidation*

These consolidated financial statements include the accounts of the Company, its United States wholly owned subsidiary Aurora Spine, Inc. and its European wholly owned subsidiary, Aurora Spine Europe Limited. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated at consolidation. These subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern, directly or indirectly, the financial and operating policies of an entity. The existence and effect of potential voting rights that are exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are consolidated from the date that control is obtained by the Company and are deconsolidated from the date when control ceases.

(US dollars)

## 2. BASIS OF PREPARATION (continued)

### *Use of estimates and judgement*

The preparation of these 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 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 consolidated financial statements. Significant assumptions about the future, and other sources of estimates or uncertainty that management has made at the date of the consolidated financial statements, could result in a material adjustment to the carrying amounts of assets or liabilities.

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 exist 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) Covid-19

In 2020, there was a global outbreak of coronavirus which causes COVID-19. This unprecedented pandemic caused a significant business disruption and some business closure. As a result of the closure of business, the United States government offered relief to businesses through the Small Business Administration (SBA). The Company applied for and received a Payroll Protection Program loan. The Company experienced a significant drop in revenue due to the suspension of elective surgeries in the United States commencing March 2020. In late May, most hospitals reopened for elective surgeries. In 2021, The Company applied for and received a second Payroll Protection Program loan. Management estimates that Covid-19 will not cause a significant disruption in the future.

(US dollars)

## 2. BASIS OF PREPARATION (continued)

### (f) 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 takes into account 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.

### (g) 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.

### (h) Income taxes

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

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized, and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

### (i) 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 is subject to estimates and has been recognized and recorded in cost of goods sold.

*(US dollars)*

**(j) 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.

**(k) 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.

**(l) 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 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.

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

**(b) Inventories (continued)**

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 amounts of inventories are 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	Lesser 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 IAS 38 – 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. As at December 31, 2021 and 2020, management's assessment of impairment is based on the following judgements:

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

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.

(US dollars)

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

**(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 four 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.

(US dollars)

**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.

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.

The following table sets forth the disaggregation of the Company's revenue from distributors versus hospitals:

	2021	2020
Commissions	\$ 66,211	\$ 219,200
Distributors	153,825	255,066
Hospitals	10,324,771	8,171,355
Total	\$ 10,544,807	\$ 8,645,621

For sales to Hospitals, the Company generally satisfies its performance obligation and transfers control to the customer when the medical device is implanted in the patient. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled.

For sales to Distributors, the Company generally satisfies its performance obligation and transfers control to the customer when the medical devices are shipped to the distributor. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled.

Commission sales are generally for the use of third-party biologics during surgery in conjunction with the Company's medical devices. The third-party bills the hospital and remits a commission to the Company. The Company records net revenue as an agent on the basis that the Company does not bear inventory or credit risk.

Included in revenue arising from sales of \$10,544,807 (2020 - \$8,645,621) are revenues of \$3,483,041 (2020 - \$3,159,891) which arose from sales to three of the Company's largest customers. One customer accounted for 17.3% of revenue in 2021 (2020 - 19.0%). No other single customer contributed 10% or more to the Company's revenue for both 2021 and 2020.

**(h) 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.

(US dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (i) Provisions

The Company recognizes a provision when it has a present obligation (legal or constructive) as a result of a past event, it is probable that it will be required to settle the obligation, and it can make a reliable estimate of the amount of the obligation. The amount it recognizes as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

#### (j) Share-based payments

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 taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

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 the 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 the 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 share-based payments are reflected in share-based compensation reserve until exercised. Upon exercise, shares are issued from treasury and the amount reflected in share-based compensation reserve is credited to shareholders' capital, adjusted for any considerations. Any adjustment to cumulative share-based compensation resulting from a revision, such as changes in vesting expectations due to forfeitures or cancellations, is recognized in the current period.

#### (k) Loss per share

Loss per share is computed by dividing net loss by the weighted average number of shares outstanding during the period. The computation of diluted loss assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted loss per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted loss per share by application of the treasury stock method. In years when the Company reports a comprehensive loss, the effect of potential issuances of shares under options and warrants would be anti-dilutive, and therefore, basic and diluted loss per share are the same.

(US dollars)

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

**(l) 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 the statements of comprehensive loss.

**(m) 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.

(US dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (m) Financial instruments (continued)

##### *Business model assessment*

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

##### *Contractual cash flow assessment*

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

##### **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.

(US dollars)

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

**(m) Financial instruments (continued)**

*Financial liabilities*

**Recognition and initial measurement**

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

**Classification and subsequent measurement**

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

**Derecognition of financial liabilities**

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

The financial instruments of the Company are classified as follows:

	IFRS 9	
	Classification	Measurement
Cash	FVTPL	Fair value
Trade 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.

(US dollars)

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

**(m) Financial instruments (continued)**

*Financial liabilities(continued)*

**Derecognition of financial liabilities (continued)**

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.

**(n) Income taxes**

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

(US dollars)

#### 4. FINANCIAL RISK MANAGEMENT

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

##### Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the end of the reporting period.

##### [i] Cash

The Company minimizes its exposure to credit risk by keeping all of its 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 minimized as the Company does not have significant concentration of trade receivables in an individual customer; the Company deals with reputable distributors and hospitals; and its customer base is established and continuously monitored. Management consistently assesses customers for counter party risks.

Description	Trade Receivables	
	December 31, 2021	December 31, 2020
Current	\$ 1,531,535	\$ 1,077,805
Past due 1-30 days	427,782	486,621
Past due 31-60 days	407,100	89,112
Over 60 days	383,716	14,391
Trade receivable balance and maximum credit risk	\$ 2,750,133	\$ 1,667,929
Net receivables, net of expected credit loss	\$ 2,668,174	\$ 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. The provision matrix below shows the expected credit loss rate at each aging category of receivables.

	Current	Aged 1-30 days past due	Aged 31-60 days past due	Aged > 60 days past due
Expected collection rate	100%	100%	100%	79%
Gross carrying amount	\$ 1,531,536	\$ 427,782	\$ 407,100	\$ 383,716
Expected credit loss, end of the period	—	—	—	\$ 81,960

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 been incurred, but 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.

(US dollars)

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

The Company considers there to be an impairment of the receivables 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

**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 December 31, 2021 and 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. Other than leases, the Company has no third-party borrowings bearing interest and considers itself to have minimal exposure to cashflow 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 \$5,777,795 (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 as at December 31:

Liability	Terms	2021	2020
Trade and other payables	Due within one year	\$ 2,614,781	\$ 1,531,470
Leases	Due within three years	\$ 93,556	\$ 170,374
Due to related parties	Due within one year	\$ 12,500	\$ 30,000
Due to related parties	Due within three years	\$ 2,273,500	\$ 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 December 31, 2021 and 2020 was \$5,569,312 and \$3,281,305, respectively.

**AURORA SPINE CORPORATION**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2021 and 2020**

(US dollars)

**5. CASH**

	December 31, 2021	December 31, 2020
Cash	\$ 3,172,575	\$ 1,710,146

Cash is held at an 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. There was \$1,041 in interest earned during 2021 (2020 \$5,653).

**6. INVENTORY**

The Company categorizes inventory as follows:

	December 31, 2021	December 31, 2020
TiNano PEEK implants	\$ 482,759	\$ 718,816
ZIP implants	822,825	394,006
Titanium Implants	137,240	93,638
Consumables	224,212	185,802
Work in process ("WIP")	222,604	204,103
Total	\$ 1,889,640	\$ 1,596,365

Inventory is expensed to cost of goods sold upon the sale of the product or service. During the years ended December 31, 2021 and 2020 the amount expensed was \$5,711,255 and \$5,176,902, respectively. During the years ended December 31, 2021 and 2020, the Company recognized inventory impairments of \$40,326 and \$248,998, 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:

	Intellectual Property	Patents	Licenses	Total
<b>Cost</b>				
As at December 31, 2020	\$ 126,000	\$ 210,933	\$ 603,896	\$ 940,829
Additions	—	—	—	—
As at December 31, 2021	\$ 126,000	\$ 210,933	\$ 603,896	\$ 940,829
<b>Accumulated Amortization</b>				
As at December 31, 2020	\$ 37,800	\$ 34,082	\$ —	\$ 71,883
Amortization	6,300	8,315	—	14,615
As at December 31, 2021	\$ 44,100	\$ 42,397	\$ —	86,498
<b>Net Book Value</b>				
As at December 31, 2020	\$ 88,200	\$ 176,851	\$ 603,896	\$ 868,946
As at December 31, 2021	\$ 81,900	\$ 168,536	\$ 603,896	\$ 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 December 31, 2021 and 2020.

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 Consolidated Financial Statements**  
**December 31, 2021 and 2020**

(US dollars)

**8. PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2021 is comprised of the following:

	Trays and Instruments	Computer Equipment	Furniture and Fixtures	Automobiles	Leaseholds	ROU Assets	Total
<b>Cost</b>							
December 31, 2020	\$ 4,525,284	\$ 99,274	\$ 56,130	\$ 23,157	\$ 6,783	\$ 477,590	\$ 5,188,218
Additions	717,268	3,340	—	—	—	127,397	848,005
Disposals	(94,078)	—	—	—	—	—	(94,078)
As at December 31, 2021	5,148,474	102,614	56,130	23,157	6,783	604,987	5,942,145
<b>Accumulated depreciation</b>							
As at December 31, 2020	3,725,089	89,741	44,657	9,262	4,409	224,748	4,097,906
Disposals	(94,078)	—	—	—	—	—	(94,078)
Depreciation for the year	464,436	6,500	4,506	4,631	1,357	152,645	634,075
As at December 31, 2021	4,095,447	96,241	49,163	13,893	5,766	377,393	4,637,903
<b>Net book value</b>							
As at December 31, 2021	\$ 1,053,027	\$ 6,373	\$ 6,967	\$ 9,264	\$ 1,017	\$ 227,594	\$ 1,304,242

Property and equipment at December 31, 2020 is comprised of the following:

	Trays and Instruments	Computer Equipment	Furniture and Fixtures	Automobiles	Leaseholds	ROU Asset - Building	Total
<b>Cost</b>							
December 31, 2019	\$ 4,015,294	\$ 99,274	\$ 56,130	\$ 23,157	\$ 6,783	\$ 477,590	\$ 4,678,228
Additions	509,990	—	—	—	—	—	509,990
Disposals	—	—	—	—	—	—	—
As at December 31, 2020	4,525,284	99,274	56,130	23,157	6,783	477,590	5,188,218
<b>Accumulated depreciation</b>							
As at December 31, 2019	3,279,991	82,862	40,069	4,631	3,052	112,374	3,522,979
Disposals	—	—	—	—	—	—	—
Depreciation for the year	445,098	6,879	4,588	4,631	1,357	112,374	574,927
As at December 31, 2020	3,725,089	89,741	44,657	9,262	4,409	224,748	4,097,906
<b>Net book value</b>							
As at December 31, 2020	\$ 800,195	\$ 9,533	\$ 11,473	\$ 13,895	\$ 2,374	\$ 252,842	\$ 1,090,312

During the year ended December 31, 2021, \$94,078 assets were written off. These assets were fully depreciated at the time of disposal. During the year ended December 31, 2020, there were no disposals, or assets written off.

(US dollars)

## 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 shares 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.

The continuity of share capital is as follows:

	Common Shares	
	#	\$
December 31, 2019	46,477,744	20,669,713
Private placement [i]	8,932,000	1,378,589
Share issuance costs [i]	—	(51,281)
Stock options exercised [ii]	57,500	10,726
December 31, 2020	55,467,244	22,007,747
Private placement [iii]	11,220,930	3,680,577
Share issuance costs [iii]	—	(788,274)
Stock options exercised [iv]	42,336	11,301
December 31, 2021	66,730,510	24,911,351

- i) In February 2020, the Company completed a private placement of 8,932,000 common shares for aggregate gross proceeds of CDN\$2,333,000 (US\$1,697,080). In connection with this offering, the Company paid cash commissions and fees of CDN\$69,616 (US\$51,281). A director of the Company subscribed to and received 1,579,000 shares in exchange for cash of CDN\$394,750 (US\$300,010). In addition, the Company issued warrants to purchase up to 4,466,000 common shares of the Company, exercisable at CDN \$0.45 for a period of 3 years following the investment date. The warrants vest in 33% increments on each anniversary of the date of the transaction.
- ii) On December 7, 2020, pursuant to the exercise of 57,500 stock options, the Company issued 57,500 common shares at CDN\$0.15 (USD\$0.12) per share for aggregate gross proceeds of CDN\$8,625 (USD\$6,745).
- iii) 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 CDN\$6,508,139 (US\$5,116,059). \$3,623,850 was allocated to common shares and \$1,492,209 was allocated to warrants (see note 9(c) warrants). In connection with this offering, the Company paid cash commissions and fees of CDN\$1,002,791 (US\$795,781). 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.
- iv) During the year ended December 30, 2021, pursuant to the exercise of 42,336 stock options, the Company issued 42,336 common shares for aggregate gross proceeds of CDN\$8,874 (USD\$7,132).

(US dollars)

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

**(b) Stock options**

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

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

Options granted under the Plan can have a maximum life period of ten (10) years after the grant date. The option exercise price is established by the Board of Directors and may not be lower than the market price of the common shares at the time of grant.

As at December 31, 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, 2019	3,181,000	\$ 0.26	5.75
Issued <sup>(i)</sup>	567,917	0.26	7.50
Exercised	(57,500)	0.23	N/A
Forfeited	(279,500)	N/A	N/A
Balance, December 31, 2020	3,411,917	\$ 0.26	5.08
Issued <sup>(ii)</sup>	1,018,333	0.56	7.50
Exercised	(42,336)	0.21	N/A
Forfeited	(333,164)	N/A	N/A
Expired	(25,000)	N/A	N/A
Balance, December 31, 2021	4,029,750	\$ 0.32	4.82

- (i) During the year ended December 31, 2020, the Company granted a total of 567,917 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 \$57,837 using the Black-Scholes option pricing model. The stock compensation expensed was \$92,821 which relates to current and prior period grants. The remaining expense will be recognized over the balance of the vesting periods. On December 7, 2020 pursuant to the exercise of 57,500 stock options, the Company issued 57,500 common shares at CDN\$0.15 (USD\$0.12) per share for aggregate gross proceeds of CDN\$8,625 (USD\$6,745).
- (ii) During the year ended December 31, 2021, the Company granted a total of 1,018,333 stock options. The options vest 1/3 on each annual anniversary for three years. The fair value of the stock options was estimated to be \$55,558 using the Black-Scholes option pricing model. The stock compensation expensed was \$141,456 which relates to current and prior period grants. The remaining expense will be recognized over the balance of the vesting periods. In September 2021, pursuant to the exercise of 42,336 stock options, the Company issued 42,336 common shares at CDN\$0.21 (USD\$0.17) per share for aggregate gross proceeds of CDN\$8,874 (USD\$7,132).

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**9. SHAREHOLDERS' EQUITY (continued)**  
**(b) Stock options (continued)**

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2021.

Number of options outstanding	Number of options exercisable	Exercise Price	Expiry Date
100,000	100,000	0.19	1/25/2024
1,000,000	1,000,000	0.21	6/6/2024
462,500	462,500	0.2	1/16/2025
31,000	31,000	0.15	7/20/2025
6,250	6,250	0.09	9/15/2025
25,000	25,000	0.095	12/15/2025
31,250	31,250	0.12	3/12/2026
37,500	37,500	0.12	5/11/2026
56,250	56,250	0.12	6/12/2026
18,750	18,750	0.15	7/18/2026
25,000	25,000	0.19	8/15/2026
187,500	187,500	0.36	10/15/2026
183,750	122,500	0.32	1/18/2027
30,000	20,000	0.34	3/15/2027
184,750	123,167	0.31	4/12/2027
26,500	17,667	0.34	5/13/2027
137,500	91,667	0.4	7/18/2027
25,000	16,667	0.39	8/2/2027
82,500	55,000	0.385	10/17/2027
12,500	8,333	0.285	12/12/2027
92,500	30,833	0.24	1/16/2028
37,500	12,500	0.14	4/16/2028
35,833	11,944	0.27	7/16/2028
77,500	25,833	0.225	8/17/2028
65,834	21,945	0.3	10/15/2028
25,000	8,333	0.3	10/21/2028
13,750	4,583	0.25	12/15/2028
207,083	-	0.39	1/13/2029
45,000	-	0.73	3/23/2029
231,250	-	0.77	4/15/2029
65,000	-	0.72	6/15/2029
227,500	-	0.66	7/15/2029
187,500	-	0.33	10/18/2029
55,000	-	0.31	12/3/2029
4,029,750	2,551,972		

The table below shows the principal assumptions used in the Black-Scholes pricing model:

	2021	2020
Risk-free interest rate	0.69 - 1.49%	0.41 - 1.57%
Expected average volatility	87%	86%
Expected life	8 years	8 years
Expected dividend yield	Nil	Nil
Share price at date of grant	\$0.31 - 0.77	\$0.14 - \$0.30
Exercise price at date of grant	\$0.31 - 0.77	\$0.14 - \$0.30
Forfeiture rate	43%	44%

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

**(c) Warrants**

The Company issued 1,750,000 warrants 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 are exercisable commencing six months following the date of issuance to three years from the date of issuance at CDN\$0.58.

At December 31, 2021, the number of outstanding warrants of which 10,954,364 are exercisable for an equivalent number of common shares is as follows:

	Number of warrants	Weighted average exercise price Cdn \$
Balance, December 31, 2019	1,750,000	\$ 0.35
Issued 2020	4,466,000	\$ 0.45
Balance, December 31, 2020	6,216,000	\$ 0.42
Issued 2021	8,976,743	\$ 0.74
Balance, December 31, 2021	15,192,743	\$ 0.61

The value of the warrants issued during 2021 is estimated at \$1,670,675 using the Black-Scholes valuation and is based on the following assumptions:

	2021
Risk-free interest rate	0.55%
Expected volatility	86%
Expected life	3 years
Expected dividend yield	Nil
Share price at date of grant (Cdn \$)	\$ 0.67
Exercise price at date of grant (Cdn \$)	\$ 0.74
Fair value (Cdn \$)	\$ 0.20
Forfeiture rate	Nil

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**10. RELATED PARTY TRANSACTIONS**

The Company's related parties include key management and personnel that have authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management are the members of the Board of Directors, the chief executive officer, the present chief financial officer, the former chief financial officer during her time in the position, the chief technology officer and chief operating officer. Unless otherwise stated, none of the transactions incorporated special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

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

	2021	2020
Salaries	\$ 533,637	\$ 513,434
Share-based compensation	5,903	2,902
Total	\$ 539,540	\$ 516,336

At December 31, 2021 and 2020, there is an outstanding non-interest-bearing loan payable to a director of the Company for \$12,500 and \$42,500, respectively, which is due on or before May 2022 and is secured by certain instrument sets. Additionally, at December 31, 2021 and 2020, there is an outstanding secured promissory note to a director of the Company with a principal amount of \$1,600,000 which bears an interest rate of 9% per annum and is due on or before June 2023. At December 31, 2021 and 2020, the accrued interest related to the loan is \$673,500 and \$529,500, respectively. The note is secured by the tangible and intangible assets of the Company.

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) (nil in 2021).

**11. COMMITMENTS**

In December 2012, Aurora Spine LLC entered into two separate consultant agreements whereby the Company has a commitment to pay a 3.5% aggregate royalty to these consultants, based on gross sales of certain products sold and patent royalties received by the Company. Total royalties paid are not to exceed 6% of annual revenues of any given device or product line. Royalties will not be payable until the product can be placed in the market following successful completion of the pivotal medical testing and receipt of approval to market the products in the US and Canada from the Food and Drug Administration and Health Canada.

In November 2013, the Company entered into an asset agreement whereby the Company has agreed to pay a 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 \$38,388 were paid in 2021 (\$50,215 in 2020).

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.

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**12. BASIC AND DILUTED LOSS PER SHARE**

The calculation of basic and diluted loss per share is based on the net loss for the period divided by the weighted average number of shares in circulation during the period. In calculating the diluted loss per share, potentially dilutive shares such as options and warrants have not been included as they would have the effect of decreasing the loss per share and they would, therefore be antidilutive. Details of options and warrants that could potentially dilute earnings per share in the future are given in Note 9.

	December 31, 2021	December 31, 2020
Net gain (loss)	\$ (2,359,325)	\$ (232,085)
Weighted average common shares outstanding	58,706,898	54,634,289
Basic and diluted loss per share	\$ (0.04)	\$ (0.00)

**13. INCOME TAXES**

The reconciliation of the combined Canadian Federal and Provincial income tax rate of 26.5% (2020 – 26.5%) to the effective tax rate is as follows:

	December 31, 2021	December 31, 2020
Net loss before recovery of income taxes	\$ (2,359,325)	\$ (232,085)
Expected income tax recovery	(637,018)	(61,503)
Difference in foreign tax rates	(776)	708
Tax rate changes and other adjustments	388,393	162,802
Share based payment and non-deductible/(taxable) expenses	(54,689)	(89,590)
Prior year true-up	(22,561)	(56,109)
Share issuance cost booked through equity	0	(13,589)
Change in deferred tax asset not recognized	326,650	57,281
Income tax (recovery) expense	\$ —	\$ —

	December 31, 2021	December 31, 2020
Deferred tax assets		
Net operating loss - USA	\$ 329,328	\$ 320,052
Deferred tax liabilities		
Property, plant and equipment	(286,205)	(220,179)
Intangibles	(43,122)	(31,585)
Right of Use Asset	—	(68,288)
Net deferred tax asset	\$ —	\$ —

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	December 31, 2021	December 31, 2020
Share issuance costs	\$ 738,015	\$ 51,360
Non-capital losses carried forward - Canada	1,346,618	1,155,280
Non-capital losses carried forward - US	18,928,064	17,072,261
Non-capital losses carried forward - UK	361,030	361,021
Inventory Reserve	961,332	—
Other temporary differences	54,108	633,893
	\$ 22,389,167	\$ 19,273,815

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**13. INCOME TAXES (continued)**

The Company has not recorded deferred tax assets related to the temporary differences noted above. While the Company generated its first revenues in September 2013, there remains uncertainty regarding the revenue growth and timing of future taxable income available against which these differences can be utilized. Share issue costs will be fully amortized in 2024. There are non-capital loss carry forwards available for the Company which will expire as follows:

Non- Capital Losses						
Year of Loss	Expiry		Canada	Expiry	United States	Total
2013	2033	\$	29,155	2033	\$ 2,689,714	\$ 2,718,869
2014	2034		244,798	2034	7,426,330	\$ 7,671,128
2015	2035		205,996	2035	2,737,630	\$ 2,943,626
2016	2036		207,467	2036	1,819,046	\$ 2,026,513
2017	2037		208,096	2037	1,806,800	\$ 2,014,896
2018	2038		182,780	2038	—	\$ 182,780
2019	2039		59,779	Infinity	621,729	\$ 681,508
2020	2040		17,210	Infinity	372,495	\$ 389,705
2021	2041		191,337	Infinity	2,672,248	\$ 2,863,585
		\$	1,346,618		\$ 20,145,992	\$ 21,492,610

  

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

The UK losses of \$361,021 can be carry forward indefinitely.

**U.S. Income Tax Status**

U.S. federal tax legislation was enacted in 2004 to address perceived U.S. tax concerns in “corporate inversion” transactions. A “corporate inversion” generally occurs when a non-U.S. corporation acquires “substantially all” of the equity interests in, or the assets of, a U.S. corporation or partnership, if, after the acquisition, former equity holders of the U.S. corporation or partnership own a specified level of stock in the non-U.S. corporation. The tax consequences of these rules depend upon the percentage identity of stock ownership that results. Generally, in the “80-percent identity” transactions, i.e. former equity holders of the U.S. corporation owns 80% or more of the equity of the non-U.S. acquiring entity (excluding certain equity interests), the tax benefits of the inversion are limited by treating the non-U.S. acquiring entity as a domestic entity for U.S. tax purposes.

Management is of the view that a corporate inversion has resulted from the IPO transaction completed in 2013. Management has determined that the Company is subject to the "80 percent" identity with respect to the transactions undertaken.

**14. LEASES**

On April 14, 2017 the Company signed a new lease with its landlord which terminated the original lease effective May 31, 2017. The new lease terms are effective June 1, 2017 and terminate on March 31, 2023. The new lease reduced the monthly base rent from \$28,718 for 17,288 square feet to \$7,650 for 5,464 square feet, plus Common Area Maintenance (“CAM”) charges and a termination fee of \$5,000 for the first 22 months. Rent expense is recorded on a straight-line basis. The \$5,000 per month termination fee reduced the Company’s existing deferred rent liability. The monthly payment increases by 3% each year beginning at month 13 of the lease.

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**14. LEASES (continued)**

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 December 31, 2021, the liability related to the right of use assets is \$259,165 of which \$93,556 is non-current and \$165,608 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.

The lease liability is secured by the related underlying asset. Future minimum lease payments as at December 31, 2021 are as follows:

December 31, 2021	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Total
Lease payments	\$ 184,847	\$ 53,684	\$ 17,979	\$ 8,364	\$ 5,576	\$ 270,450
Finance charges	8,262	1,983	706	150	31	11,132
	\$ 193,109	\$ 55,667	\$ 18,685	\$ 8,514	\$ 5,607	\$ 281,582

Payments related to short-term leases were expensed on a straight-line basis. The expense related to these payments not included in the lease liability was \$5,400 for the year ended December 31, 2021 (\$1,800 for year ended December 31, 2020)

**15. OTHER INCOME**

**Reversal of previously recorded liability**

During 2020, the Company recorded a gain on extinguishment of a payable in the amount of \$558,152. As a result of certain events related to the suppliers, the Company was no longer liable to the suppliers.

**Payroll Protection Program Loan**

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

**15. OTHER INCOME (continued)**

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. The loan is forgivable if used for qualified expenses such as payroll, rent, and utility expenses. If these conditions are not met, the Company is required to return a portion of the principal and interest at a rate of 1%. The Company has used and will continue to use a substantial portion of the loan for its intended purpose and does not expect to pay back a material amount of the loan. The Company elected to use an 8-week covered period. In accordance with IAS 20, the Company used the income approach to recognize the government grant over the 8-week covered period to match the grant with the related costs. The grant was recognized as Deferred Income in the consolidated statement of financial position and was amortized to Other Income over the 8-week period. During the nine-month period ended September 30, 2021, the Company recognized \$350,140 in Other Income related to the PPP loan.

**Payroll Protection Program Loan Forgiveness**

In June 2021, the Company was informed by the Small Business Administration (SBA) that the Payroll Protection Program (PPP) loan received in 2020 for \$450,877 was forgiven and there is no balance owed on the 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.