AURORA SPINE CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2015

(UNAUDITED)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed interim consolidated financial statements have been prepared by and are the responsibility of management. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed interim consolidated financial statements of the Company for the six-month period ended June 30, 2015 in accordance with standards established by the Canadian Institute of Chartered Accountants.

(US dollars)

	Notes	June 30, 2015	December 31, 2014
ASSETS			
Current			
Cash	6	$ 868,585	$ 262,896
Trade and other receivables		1,018,106	1,114,001
Prepaid expenses and deposits		121,151	212,745
Inventory	7	3,092,751	3,153,951
Total current assets		5,100,593	4,743,593
Non-current			
Intangible assets	8	210,966	210,966
Property and equipment	9	3,097,837	3,180,935
Total non-current assets		3,308,803	3,391,901
Total assets		$ 8,409,396	$ 8,135,494
LIABILITIES			
Current			
Trade and other payables	10	$ 3,224,597	$ 4,442,585
Current portion of deferred liability	11	120,000	120,000
Total current liabilities		3,344,597	4,562,585
Non-current			
Deferred liability	11	85,316	73,831
Total non-current liabilities		85,316	73,831
Total liabilities		3,429,913	4,636,416
SHAREHOLDERS' EQUITY			
Common shares	12	18,117,553	14,709,993
Shares to be issued		–	294,644
Contributed surplus		396,357	304,684
Deficit		(13,534,427)	(11,810,243)
Total shareholders' equity		4,979,483	3,499,078
Total liabilities and shareholders' equity		$ 8,409,396	$ 8,135,494
Commitments	14		

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

These condensed interim consolidated financial statements were approved by the Board of Directors on August 27, 2015.

/s/ Trent Northcutt — Director

/s/ James Snow — Director

(US dollars)

	Notes	Three-month period ended June 30 2015	Three-month period ended June 30 2014	Six-month period ended June 30 2015	Six-month period ended June 30 2014
SALES		$ 934,145	$ 462,271	$ 2,232,289	$ 746,938
Cost of goods sold	7	425,945	206,266	1,048,463	313,378
GROSS PROFIT		508,200	256,005	1,183,826	433,560
OPERATING EXPENSES					
Executive compensation	13	166,756	200,898	338,113	367,366
Salaries		351,455	602,571	808,279	998,436
Consulting fees		22,191	51,788	45,167	91,114
General and administrative		21,714	346,558	663,076	729,923
Research and development		11,044	22,352	51,821	102,907
Marketing		44,666	198,857	68,080	298,613
Occupancy		72,865	72,509	135,164	121,038
Professional fees		(36,026)	119,384	197,769	251,254
Stock based compensation		50,884	52,365	91,673	104,154
Insurance		63,709	12,358	149,007	23,835
Depreciation	9	178,154	78,362	359,861	124,791
TOTAL OPERATING EXPENSES		947,412	1,758,002	2,908,010	3,213,431
NET LOSS AND COMPREHENSIVE LOSS		$ (439,212)	$(1,501,997)	$(1,724,184)	$(2,779,871)
Basic and diluted loss per share	15	$ (0.02)	$ (0.07)	$ (0.07)	$ (0.13)

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

(US dollars)

	Notes	Common shares	Shares to be issued	Contributed surplus	Deficit	Total
Balance, December 31, 2013	12	$ 5,615,965	$ –	$ 127,395	$ (4,303,000)	$ 1,440,360
Private placement, January 15, 2014	12	9,521,808	–	–	–	9,521,808
Stock based compensation	12	–	–	104,154	–	104,154
Share issuance costs	12	(781,333)	–	–	–	(781,333)
Total comprehensive loss		–	–	–	(2,779,871)	(2,779,871)
Balance, June 30, 2014		$14,356,440	$ –	$ 231,549	$ (7,082,871)	$ 7,505,118
Balance, December 31, 2014	12	$14,709,993	$ 294,644	$ 304,684	$(11,810,243)	$ 3,499,078
Private placements	12	3,607,118	(294,644)	–	–	3,312,474
Stock based compensation	12	–	–	91,673	–	91,673
Share issuance costs	12	(199,558)	–	–	–	(199,558)
Total comprehensive loss		–	–	–	(1,724,184)	(1,724,184)
Balance, June 30, 2015		$18,117,553	$ –	$ 396,357	$(13,534,427)	$ 4,979,483

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

(US dollars)

	Notes	Three-month period ended June 30 2015	Three-month period ended June 30 2014	Six-month period ended June 30 2015	Six-month period ended June 30 2014
OPERATING ACTIVITIES					
Net loss		$ (439,212)	$(1,501,997)	$(1,724,184)	$(2,779,871)
Adjustments					
Depreciation	9	178,154	78,362	359,861	124,791
Stock based compensation	12	50,884	52,365	91,673	104,154
Changes in working capital components					
Trade and other receivables		154,433	(103,754)	95,895	(261,187)
Prepaid expenses and deposits		81,851	(31,791)	91,594	(215,732)
Inventory	7	(29,938)	(670,575)	61,200	(931,163)
Trade and other payables	10	(870,787)	45,193	(1,217,988)	484,568
Cash flows used in operating activities		(874,615)	(2,132,197)	(2,241,949)	(3,474,440)
FINANCING ACTIVITIES					
Changes in due to related parties		–	–	(294,644)	(100,000)
Initial public offering/unit issuance	12	–	–	3,607,118	9,521,808
Share/unit issuance costs	12	–	–	(199,558)	(781,333)
Shareholder loan		(75,000)	–	–	–
Cash flows received from financing activities		(75,000)	–	3,112,916	8,640,475
INVESTING ACTIVITIES					
Patent costs		–	(50,000)	–	(50,000)
Deferred liability	11	23,575	–	11,485	–
Intellectual property		–	67,991	–	(3,629)
Additions to property and equipment	9	(181,212)	(163,616)	(276,763)	(567,633)
Cash flows used in investing activities		(157,637)	(145,625)	(265,278)	(621,262)
Net change in cash		(1,107,252)	(2,277,822)	605,689	4,544,773
Cash, beginning of period		1,975,837	7,789,053	262,896	966,458
Cash, end of period		$ 868,585	$ 5,511,231	$ 868,585	$ 5,511,231

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 completed the issue of common shares to the public on September 5, 2013 offering 5,150,000 common shares at a price of US$0.70 per share, for gross proceeds of US$3,605,000. The Company's shares trade on the TSX Venture Exchange under the symbol "ASG" since the opening of trading on September 10, 2013. On December 3, 2013, the Company changed its fiscal year end from March 31 to December 31.

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

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors on August 28, 2015.

2. BASIS OF PREPARATION

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and on the basis of the going concern assumption, meaning that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

Going concern

These condensed interim consolidated financial statements have been prepared on a basis applicable to a going concern which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon further financing and ultimately, the attainment of profitable operations. These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Management of the Company plans to fund its future operations and settle its debt by obtaining additional financing through loans and private placements.

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 Company's functional currency.

Basis of consolidation

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

2. BASIS OF PREPARATION (continued)

Use of estimates and judgement

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

Judgment is used in situations when there is a choice and/or assessment requirement by management. The following are critical judgments apart from those involving estimations that management has made in the process of applying the Company's accounting policies and that have a significant effect on the amounts recognized in the consolidated financial statements.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the date of these condesned 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 are not limited to the following:

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

(b) Impairment of non-financial assets
Impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the future operating life of assets currently in development.

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

(d) Going concern
As discussed above, these condensed interim consolidated financial statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment in determining assumptions for cash flow projections, such as anticipated financing, deferral of commitments, negotiation of supplier terms and future commitments to assess the Company's ability to continue as a going concern. A critical judgement is that the Company continues to raise funds going forward and satisfy their obligations as they become due.

(e) Estimation uncertainty disclosure for share based payments and warrants
The fair value of each option granted is estimated at the grant date using the Black-Scholes option pricing model. The key assumptions are forfeiture rate, interest rate, dividend yield and expected volatility which is used to calculate the grant date fair value of the instruments. The model takes into account the historical volatility of similar companies share prices over the expected term of the options and warrants granted. If management estimates that historical volatility requires an adjustment, the Company also takes into consideration the historical volatility of comparable companies at similar stages of development as the Company as well as the volatility estimates derived from the fair value calculation of financial instruments and equity instruments in periods when this information is available.

(f) Intangible assets and their impairment
The Company assesses each intangible asset annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. As at June 30, 2015 and December 31, 2014, management's assessment of impairment is based on the following judgments:

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

On an ongoing basis, the Company evaluates each intangible asset on results to date to determine other assessment that is warranted in the future. If there is little prospect of future work associated with the asset, the asset is written off or written down to the estimated amount recoverable unless there is persuasive evidence that an impairment allowance is not required.

(US dollars)

2. BASIS OF PREPARATION (continued)

(g) Income taxes

The Company is subject to income taxes in some jurisdictions. Significant judgement is required in determining the total provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Cash

Cash represents balances with the Company's banks, readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

(b) Inventories

Inventories are initially recognized at cost and subsequently stated at the lower of cost and net realizable value. The Company's inventory primarily consists of implants (devices used in surgery). Costs of each type of inventory are determined using the first-in, first-out ("FIFO") method and includes expenditures incurred in acquiring the inventories, sterilization, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. The Company outsources its manufacturing operations to third-party manufacturers. Net realizable value is the estimated selling price less applicable selling expenses. If carrying value exceeds net realizable amount, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

(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 statements of operations and comprehensive loss on the following basis:

Asset	Basis	Rate
Machinery and equipment	Declining balance	20%
Computer equipment	Declining balance	20%
Furniture and fixtures	Declining balance	14%
Software	Declining balance	33%
Trays and instrument sets	Declining balance	20%
Leaseholds	Straight line - 5 year	20%

As at June 30, 2015 and December 31, 2014, there was no impairment of the Company's property and equipment.

(d) Patent and intellectual property

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

The Company capitalizes the cost of acquiring patents and licenses as well as the cost of preparing the products to enter medical testing, including the design of the testing, and will amortize that cost over the useful life of the product once the system is approved and ready for use. No amortization expense was recognized through June 30, 2015 and December 31, 2014. As at June 30, 2015 and December 31, 2014 there was no impairment of patent costs and product development charges.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment of property and equipment and intangible assets

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

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

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

(f) Revenue

The Company derives its revenues primarily from the sale of spinal surgery implants. These spinal surgery implants may include patented ZIP MIS implant devices as well as vertebral body products and bone grafting materials (referred to as "biologics"). Revenue from the products is recognized when the significant risks and rewards of ownership have been transferred to the customer, the sales price and costs can be measured reliably, and it is probable that the economic benefits will flow to the Company. These criteria are generally met at the time the product is shipped, delivered to the customer, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained.

The Company also receives revenue from referral fees. Revenue from referral fees primarily results from referring certain products to distributors and is recognized once the referral results in a sale.

(g) Cost of sales

Cost of sales includes the cost of manufacturing finished goods inventory (including depreciation, amortization and impairment charges), costs related to transportation and inventory write-downs.

(h) Provisions

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

(i) Share-based payments

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

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after modification, is also charged to the statement of comprehensive loss over the remaining vesting period. Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument at the grant date. The grant date fair value is recognized in statements of comprehensive loss over the vesting period, described as the period during which all the vesting conditions have been met.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Share-based payments (continued)

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in statements of comprehensive loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital. When the value of goods and services received in exchange for the stock based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of exercise restrictions, and behavioral considerations. All equity-settled stock based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to shareholders' capital, adjusted for any considerations.

(j) Earnings per share

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

(k) Foreign currency translation

The Company's functional currency is the US dollar (USD). The Company's subsidiaries functional currencies are the USD for Aurora Spine, Inc. and the Euro for Aurora Spine Europe Limited. Monetary assets and liabilities denominated in a foreign currency are translated to USD at exchange rates in effect at the end of the reporting period and non-monetary assets are transferred at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in statements of comprehensive loss.

(l) Financial instruments

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

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

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).

The following is a summary of significant categories of financial instruments outstanding at June 30, 2015:

Cash	Fair value through profit or loss
Trade and other receivables	Loans and receivables
Trade and other payables	Financial liabilities
Due to related parties	Financial liabilities
Deferred liability	Financial liabilities

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial instruments (continued)

Subsequent measurement and treatment of any gain or loss is recorded as follows:

Financial assets at Fair Value Through Profit or Loss ("FVTPL") are measured at fair value at the date of the statement of financial position with any gain or loss recognized immediately in net income. Interest and dividends earned from these assets are also included in net income for the period. Cash is the only item currently classified as financial assets at FVTPL and is a level 1.

Loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses are recognized in net income for the period. Other financial liabilities are measured at amortized cost using the effective interest method with interest expense recognized on an effective yield basis. This classification applies to the majority of the Company's financial liabilities including trade and other payables. Loans and borrowings are classified as current liabilities unless the Company has the unconditional right to defer settlement for at least 12 months after the end of the reporting period.

4. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Company manages risk through establishing policies that provide management oversight related to the risks of operations, including ensuring that risks are identified and assessed, and that appropriate and effective policies are in place. Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, market risk is segregated into three categories: other market risk, interest rate risk and currency risk. Other risks associated with financial instruments include credit risk and liquidity risk.

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

[i] Cash
The Company minimizes its exposure to credit risk by keeping the majority of its cash as cash on deposit with a major US chartered bank. Management expects the credit risk to be minimal.

[ii] Trade receivables
The exposure to credit risk for the Company's trade receivables is considered minimal. The Company continuously monitors for defaults of counterparties.

Foreign currency risk
The prices paid by the Company's subsidiary for services and supplies are paid in US dollars, Great British pounds, Euros and Canadian dollars. The Company raised funds in Canadian dollars, which have been converted to US dollars. All financial instruments are denominated in US dollars. The Company is not significantly exposed to currency risk as at June 30, 2015 and December 31, 2014 and as such not deemed to be a risk to be hedged at the present time.

Interest rate risk
Interest rate risk arises because of changes in market interest rates. The Company has no third party borrowings bearing interest and considers itself to have very minimal exposure to interest rate risk.

Liquidity risk
Liquidity risk includes the risk that the Company will not be able to meet operational liquidity requirements to conduct its business.

The Company's operating cash requirements include amounts necessary to obtain regulatory approval to commercialize its products. The Company's objective is to maintain sufficient liquid resources to meet operational requirements. During the period, the Company completed two Private Placements a total of CDN$4,433,626 (US$3,607,118) through the sale of 3,506,538 common shares. After consideration of the share issuance costs of CDN$253,139 (US$199,558) associated with the Private Placements, the net proceeds were CDN$4,180,487 (US$3,407,560).. As at June 30, 2015, the Company had cash of $868,585 (December 31, 2014 - $262,896). In addition, at June 30, 2015, the Company's working capital position was $1,755,996 (December 31, 2014 - $181,008). The Company's continuing operations are dependent upon its ability to secure additional equity capital, divest assets or generate cash flow from operations in the future, none of which are assured. There can be no assurances that the Company's activities will be successful or that sufficient funds can be raised in a timely manner.

(US dollars)

4. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

Capital management

The Company's objective when managing capital, defined as its equity, is to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The Company is not subject to any externally imposed capital requirements. The Company's objective is to ensure adequate working capital to commercialize its products and it will use the sale of equity to fund its business to the point of revenue generation and asset based borrowing being sufficient to fund the business fully. The Company considers its capital to be the aggregate of shareholders' equity, comprising share capital, contributed surplus and deficit, which at June 30, 2015 was $4,979,483 (December 31, 2014 - $3,499,078).

There is no change to the Company's capital management policy for the six months ended June 30, 2015. There are no externally imposed restrictions on capital.

5. RECENT ACCOUNTING PRONOUNCEMENTS

Future Accounting Pronouncements

Certain pronouncements have been issued by the IASB or IFRIC (IFRS Interpretations Committee) that will be effective for future accounting periods. Many of these are not applicable to the Company and so are not listed below. The following is a brief summary of the new standard:

IFRS 9 – Financial instruments - amended as part of an ongoing project to replace IAS 39 Financial instruments: Recognition and measurement. The standard requires classification of financial assets into two measurement categories based on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The categories are those measured at fair value and those measured at amortized cost.

The classification and measurement of financial liabilities is primary unchanged from IAS 39, other than the fair value measurement option which now addresses an entity's own credit risk. Additional amendments are expected with respect to de-recognition of financial instruments, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 – Revenue from Contracts with Customers - In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard is effective for annual periods beginning on or after January 1, 2017 with earlier adoption permitted.

The Company has not yet assessed the impact of these amended standards on its consolidated financial statements or determined whether it will adopt these standards early.

6. CASH

	June 30, 2015	December 31, 2014
Cash at banks	$868,585	$ 262,896

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

(US dollars)

7. INVENTORY

The following comprises inventory:

	June 30, 2015	December 31, 2014
Spinal implants	$1,436,835	$1,079,837
TiNano PEEK implants	1,032,483	1,046,723
Biologics	153,619	141,425
WIP and sub-assembly	469,814	885,966
Total	$3,092,751	$3,153,951

The cost of goods sold during the three and six months ended June 30, 2015 is $425,945 and $1,048,463 (three and six months ended June 30, 2014 - $206,266 and $313,378).

8. INTANGIBLE ASSETS

The following comprises intangible assets:

	June 30, 2015	December 31, 2014
Opening balance	$ 210,966	$ 210,966
Acquisition costs	–	–
Ending balance	$ 210,966	$ 210,966

The Company capitalizes the cost of acquiring patents and the cost of preparing the products to enter medical testing, including the design of the testing. Carrying amounts are subject to impairment review annually and whenever there is an indication that an intangible asset may be impaired and where conditions exist, impairment is recognized. The Company will amortize that cost over the useful life of the product once the system is approved and ready for use. No amortization expense was recognized as of June 30, 2015 and December 31, 2014.

During fiscal 2013, the Company purchased intangible assets of an Intervertebral Fusion Device with the related 510(K) patent information from a third party. Pursuant to the asset purchase agreement, the Company was required to pay $50,000 upon execution of the agreement and $50,000 once 510(K) clearance and approval have been received for a total purchase price of $100,000.

9. PROPERTY AND EQUIPMENT

Property and equipment as at June 30, 2015 are composed of the following:

	Trays and Instruments	Machinery and Equipment	Computer Equipment	Furniture and fixtures	Software	Leaseholds	Total
Cost							
As at December 31, 2014	$3,236,553	$46,527	$79,150	$91,809	$49,763	$75,618	$3,579,420
Additions/Disposals	273,803	2,960	–	–	–	–	276,763
As at June 30, 2015	3,510,356	49,487	79,150	91,809	49,763	75,618	3,856,183
Accumulated depreciation							
As at December 31, 2014	323,655	5,253	19,396	16,673	20,301	13,207	398,485
Depreciation	324,732	4,801	7,915	6,557	8,294	7,562	359,861
As at June 30, 2015	648,387	10,054	27,311	23,230	28,595	20,769	758,346
Net book value							
As at June 30, 2015	$2,861,969	$39,433	$51,839	$68,579	$21,168	$54,849	$3,097,837

(US dollars)

10. TRADE AND OTHER PAYABLES

Trade and other payables of the Company are principally comprised of amounts outstanding for trade purchases relating to development activities and amounts payable for operating and financing activities. The usual credit period taken for trade purchases is between 30 to 90 days.

The following comprises trade and other payables:

	June 30, 2015	December 31, 2014
Trade and other payables	$3,224,597	$ 4,442,585

11. DEFERRED LIABILITY

During fiscal 2013, the Company purchased inventory of an Intervertebral Body Fusion Device with the related 510(K) patent information from a third party. Pursuant to the asset purchase agreement, the Company is required to pay an initial down payment of $10,000 and commencing in December 2014 (a) $10,000 per month or (b) 16% of gross sales of the Discovery PEEK cervical implants for the prior calendar month, whichever is greater. These payments will continue until the Company has paid the seller the aggregate sum of $200,000. Commencing the last day of the month after the aggregate sum of $200,000 has been paid, the Company is required to pay the seller (a) $5,000 per month or (b) 10% of gross sales of the Discovery PEEK cervical implants for the prior calendar month, whichever is greater. These payments will continue until the Company has paid the seller the aggregate sum of $300,000.

The following comprises the deferred liability regarding the purchase of the Discovery PEEK cervical implant inventory and related intellectual property. A 25% discount rate was utilized to discount the estimated future payments:

	June 30, 2015	December 31, 2014
Opening balance	$ 193,831	$ 191,860
Repayment during period	(26,840)	(10,000)
Discount	–	–
Accretion expense	38,325	11,971
Closing balance, estimated fair value	205,316	193,831
Less: Current portion	120,000	120,000
Closing balance, long-term portion	$ 85,316	$ 73,831

The following table illustrates the total purchase consideration and the original allocation to the fair value of assets when acquired in fiscal 2013:

Inventory	$ 174,000
Intangible asset	17,860
Net purchase consideration	$ 191,860

After completion of payment of the total purchase price of $300,000 the Company is required to pay the seller a royalty of 3.5% of gross sales of the Discovery PEEK cervical implants for each calendar quarter. The initial royalty payment shall be made 30 days after the end of the first calendar quarter after the full payment of the total purchase price is made. The Company will thereafter pay the royalty to the seller quarterly, within 30 days of the end of each calendar quarter. Gross sales is defined as selling price, excluding taxes.

(US dollars)

12. SHAREHOLDERS' EQUITY

[a] Share capital

The number of authorized common shares is unlimited.

The continuity of share capital is as follows:

Common Shares

	Common Shares #	Common Shares $
December 31, 2014	21,758,136	14,709,993
Private placements [i][ii]	3,506,538	3,607,118
Share issuance costs [ii]	–	(199,558)
June 30, 2015	25,264,674	18,117,553

[i] On January 9, 2015, the Company completed a non-brokered private placement of common shares, pursuant to which the Company issued 504,538 common shares at a price of CDN$1.35 (US$1.18) per share for aggregate gross proceeds of CDN$681,126 (US$596,112). Two directors of the Company, directly or indirectly subscribed for 196,444 common shares under the Offering, which constitutes related party transactions.

[ii] On March 5, 2015, the Company completed a private placement of common shares (the "Offering"). Under the Offering, the Company issued 3,002,000 common shares at a price of CDN$1.25 (US$1.00) per share for aggregate gross proceeds of CDN$3,752,500 (US$3,011,006). In connection with the Offering, the Company paid finders' fees of CDN$169,600 (US$133,701) to certain arm's length finders in an amount equal to 8% of a portion of the proceeds raised under this tranche of the Offering. Share issuance costs associated with the private placement totaled CDN$253,139 (US$199,558). A director of the Company, directly or indirectly subscribed for 160,000 common shares under this tranche of the Offering which constitutes a related party transaction.

[b] Warrants

The Company issued warrants on September 5, 2013. Outstanding warrants entitle the holders to subscribe to an equivalent number of common shares as follows:

	Number of warrants	Weighted average exercise price
Balance, December 31, 2013	340,000	$ 0.70
Exercised	55,000	–
Balance, December 31, 2014	285,000	$ 0.70
Exercised	–	–
Balance, June 30, 2015	285,000	$ 0.70

The fair value of the warrants issued were estimated at $79,775 using the Black-Scholes model. The warrants were issued on September 5, 2013 and expire on September 5, 2015.

(US dollars)

12. SHAREHOLDERS' EQUITY (continued)

The weighted average fair value of the warrants issued in 2013 was estimated using the Black-Scholes valuation method and based on the following assumptions.

	2013
Risk-free interest rate	1.25%
Expected volatility	73%
Expected life	2 years
Expected dividend yield	Nil
Share price at date of grant	$0.70
Exercise price at date of grant	$0.70
Fair value	$0.28
Forfeiture rate	Nil

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[c] 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.

(US dollars)

12. SHAREHOLDERS' EQUITY (continued)

[c] Stock options (continued)

As at June 30, 2015, 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, 2014[(a)]	287,500	$1.70	6.83
Expired	(30,000)	N/A	N/A
Issued, through June 30, 2015[(b)]	171,500	$1.31	7.75
Balance, June 30, 2015	429,000	$1.55	7.50
Exercisable, June 30, 2015	97,340	$1.70	6.33

(a) On November 5, 2013, the Company granted a total of 297,500 stock options to its employees at an exercise price of CDN$1.70 per share, which was equal to the closing sales price for our common stock as quoted on the TSX Venture Exchange on the date of the grant. The options vest 1/3 on each annual anniversary for three years. The fair value of the share options was estimated to be $420,070 using the Black-Scholes option pricing model.

(b) During the three months ended March 31, 2015, the Company granted 71,500 stock options to its employees at an exercise price of CDN$1.75 per share. During the three months ended June 30, 2015, the Company granted 100,000 stock options to an employee at an excercise price of CDN$1.00 per share. The options, in accordance to the Company's employee stock-option plan, vest 1/3 on each annual anniversary for three years. The fair value of the share options was estimated to be $204,200 using the Black-Sholes option pricing model.

	2015
Risk-free interest rate	2.23%
Expected volatility	94%
Expected life	8 years
Expected dividend yield	Nil
Weighted average share price at date of grant	$1.55
Weighted average exercise price at date of grant	$1.55
Weighted average fair value	$1.55
Forfeiture rate	Nil

(US dollars)

13. RELATED PARTY TRANSACTIONS

The Company's related parties include key management and personnel and considers key personnel to be those having 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 present chief executive officer, the present 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.

As at June 30, 2015, trade payable balances to related parties total $Nil (December 31, 2014 - $4,275).

The remuneration (excluding stock based compensation) of key management of the Company for the three months ended June 30, 2015 is $166,756 ($200,898 for the three months ended June 30, 2014). The stock based compensation of key management of the Company for the three months ended June 30, 2015 is $50,884 ($52,365 for the three months ended June 30, 2014).

The remuneration (excluding stock based compensation) of key management of the Company for the six months ended June 30, 2015 is $338,113 ($367,366 for the six months ended June 30, 2014). The stock based compensation of key management of the Company for the six months ended June 30, 2015 is $91,673 ($104,154 for the six months ended June 30, 2014).

On January 9, 2015, the Company completed a non-brokered private placement of common shares, pursuant to which the Company issued 504,538 common shares at a price of CDN$1.35 (US$1.18) per share for aggregate gross proceeds of CDN$681,126 (US$596,112). Two directors of the Company, directly or indirectly subscribed for 196,444 common shares under the Offering, which constitutes related party transactions.

On March 5, 2015, the Company completed a private placement of common shares (the "Offering"). Under the Offering, the Company issued 3,002,000 common shares at a price of CDN$1.25 (US$1.00) per share for aggregate gross proceeds of CDN$3,752,500 (US$3,011,006). A director of the Company, directly or indirectly subscribed for 160,000 common shares under this tranche of the Offering which constitutes a related party transaction.

14. 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 System in the US and Canada from the Food and Drug Administration and Health Canada.

In November 2013, the Company entered into an asset agreement whereby the Company has agreed to pay a 2% royalty of worldwide net sales of the Intervertebral Fusion Device product, payable thirty days after the end of each calendar quarter, for the prior calendar quarter. The royalty shall be paid for six years commencing on the date of the first sale of the product.

The Company has signed a six year lease for their premises commencing on November 15, 2012. Minimum lease commitments under non-cancellable operating lease are as follows:

	June 30, 2015	December 31, 2014
Less than 1 year	$ 264,750	$ 201,750
Between 1 year and 5 years	768,000	924,000
Total	$ 1,032,750	$ 1,125,750

In addition, the Company is required to pay its proportionate share of common area maintenance costs and property taxes.

(US dollars)

15. BASIC AND DILUTED LOSS PER SHARE

	Six months ended June 30, 2015	Six months ended June 30, 2014
Net loss	$ (1,724,184)	$ (2,779,871)
Weighted average common shares outstanding	24,394,468	21,457,638
Basic and diluted loss per share	$ (0.07)	$ (0.13)

16. SEGMENT INFORMATION

The Company operates as a holding company to a single operating entity reported as a wholly-owned subsidiary focused on the development and sale of innovative, minimally invasive, interspinous fusion systems and devices. The Company characterizes business principally in the U.S. and outside the US ("OUS").

Revenues by geographic region are detailed as follows:

	Six months ended June 30, 2015	Six months ended June 30, 2014
United States	$1,957,087	$ 623,269
International	275,202	123,669
Total Revenues	$2,232,289	$ 746,938

The international sales during the quarter took place primarily in the UK, Germany and Saudi Arabia, and represents approximately 14% of total sales. Revenues in Israel, Saudi Arabia, Bahrain and other European countries in 2015 of $16,956, $108,173, $113,542, and $36,331, respectively, (2014: $Nil, $Nil, $Nil, and $123,669 respectively) are included in International revenues in the table above.