TITAN MEDICAL INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

(IN UNITED STATES DOLLARS)

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Independent Auditor's Report

To the Shareholders of
Titan Medical Inc.

We have audited the accompanying financial statements of Titan Medical Inc., which comprise the balance sheets as at December 31, 2014, December 31, 2013 and January 1, 2013 and the statements of shareholders' equity and deficit, net and comprehensive loss and cash flows for the years ended December 31, 2014 and December 31, 2013 and a summary of significant accounting policies and other explanatory information.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Titan Medical Inc. as at December 31, 2014, December 31, 2013 and January 1, 2013 and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.

(Signed) BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
February 10, 2015

TITAN MEDICAL INC.
Balance Sheets
As at December 31, 2014 and December 31, 2013
(In U.S. Dollars)

	December 31, 2014	December 31, 2013	January 1, 2013
ASSETS			
CURRENT			
Cash and cash equivalents	$26,165,182	$2,446,084	$4,340,918
Short-term investments (Note 2(c))	7,758,000	-	-
Amounts receivable	142,329	38,172	65,991
Deposits (Note 8)	900,000	387,362	276,570
Prepaid expenses	60,279	71,548	190,718
Total Current Assets	35,025,790	2,943,166	4,874,197
Furniture and Equipment (Note 3)	16,265	27,823	315,341
Patent Rights (Note 4)	347,381	236,182	189,469
	$35,389,436	**$3,207,171**	**$5,379,007**
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities	$2,766,315	$1,186,588	$1,032,959
Warrants liability (Note 2(i) and 6)	2,997,963	-	-
	5,764,278	1,186,588	1,032,959
SHAREHOLDERS' EQUITY			
Share Capital (Note 5(a))	73,094,032	30,282,941	25,086,545
Contributed Surplus	2,491,427	2,240,037	1,859,860
Warrants (Note 5 (b))	6,014,360	8,022,005	7,139,050
Deficit	(51,974,661)	(38,524,400)	(29,739,407)
Total Equity	29,625,158	2,020,583	4,346,048
TOTAL LIABILITIES & EQUITY	**$35,389,436**	**$3,207,171**	**$5,379,007**

Commitments (Note 8)
See accompanying notes to financial statements

Approved on behalf of the Board:

John T. Hargrove — Chairman and CEO

Martin Bernholtz — Director

TITAN MEDICAL INC.
Statements of Shareholders' Equity and Deficit
For the Years ended December 31, 2014 and 2013
(In U.S. Dollars)

	Share Capital Number	Share Capital Amount	Contributed Surplus	Warrants	Deficit	Total Equity
Balance - December 31, 2012	**64,744,892**	**$ 25,086,545**	**$ 1,859,860**	**$ 7,139,050**	**$ (29,739,407)**	**$ 4,346,048**
Issued pursuant to agency agreement	6,260,763	6,180,688				6,180,688
Share issue expense		(758,140)				(758,140)
Warrants issued during the year		(882,955)		882,955		-
Warrants exercised during the year	192,614	190,151				190,151
Options exercised during the year	967,165	466,652	(207,448)			259,204
Stock based compensation vested			587,625			587,625
Net and Comprehensive loss for the year					(8,784,993)	(8,784,993)
Balance - December 31, 2013	**72,165,434**	**$ 30,282,941**	**$ 2,240,037**	**$ 8,022,005**	**$ (38,524,400)**	**$ 2,020,583**
Issued pursuant to agency agreements	21,345,689	34,821,603				34,821,603
Share issue expense		(2,604,279)				(2,604,279)
Warrant liability issued during the year		(5,087,611)				(5,087,611)
Warrants exercised during the year	7,894,436	14,938,818		(2,007,645)		12,931,173
Options exercised during the year	1,149,779	742,560	(344,420)			398,140
Stock based compensation vested			595,810			595,810
Net and Comprehensive loss for the year					(13,450,261)	(13,450,261)
Balance – December 31, 2014	**102,555,338**	**$ 73,094,032**	**$ 2,491,427**	**$ 6,014,360**	**$ (51,974,661)**	**$ 29,625,158**

See accompanying notes to financial statements.

TITAN MEDICAL INC.
Statements of Net and Comprehensive Loss
For the Years ended December 31, 2014 and 2013
(In U.S. Dollars)

	Year Ended December 31, 2014	Year Ended December 31, 2013
REVENUE	$ -	$ -
EXPENSES		
Amortization	23,661	289,791
Consulting fees	293,797	349,646
Stock based compensation (Note 5(b))	523,962	660,666
Insurance	38,286	41,277
Management salaries and fees	1,099,570	1,280,952
Marketing and investor relations	194,961	112,062
Office and general	439,821	214,944
Professional fees	476,340	327,825
Rent	176,137	178,097
Research and development	10,678,849	5,184,956
Travel	256,242	168,891
Foreign exchange loss	572,594	35,112
	14,774,220	8,844,219
FINANCE INCOME		
Interest	305,293	59,226
Gain on change in fair value of warrants (Note 2(i) and 6)	1,018,666	-
	1,323,959	59,226
NET AND COMPREHENSIVE LOSS FOR THE PERIOD	$(13,450,261)	$(8,784,993)
BASIC AND DILUTED LOSS PER SHARE	$0.14	$0.12
WEIGHTED AVERAGE NUMBER OF COMMON SHARES, Basic and Diluted	94,073,183	70,295,515

See accompanying notes to financial statements

TITAN MEDICAL INC.
Statements of Cash Flows
For the Years ended December 31, 2014 and 2013
(In U.S. Dollars)

	Year Ended December 31, 2014	Year Ended December 31, 2013
OPERATING ACTIVITIES		
Net loss for the period	$(13,450,261)	$(8,784,993)
Items not involving cash:		
Amortization	23,661	289,791
Stock based compensation-vested	595,810	587,625
Warrant liability – fair value adjustment	(1,018,666)	-
Changes in non-cash working capital items:		
Amounts receivable, prepaid expenses and deposits	(605,525)	36,198
Accounts payable and accrued liabilities	1,579,727	153,629
Cash used in operating activities	(12,875,254)	(7,717,750)
FINANCING ACTIVITIES		
Net proceeds from issuance of common shares and warrants	44,475,655	5,871,903
Cash provided by financing activities	44,475,655	5,871,903
INVESTING ACTIVITIES		
Proceeds from disposal of furniture and equipment	3,539	403
Purchase of short-term investments	(7,758,000)	-
Costs of Patents	(126,842)	(49,390)
Cash used in investing activities	(7,881,303)	(48,987)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	23,719,098	(1,894,834)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,446,084	4,340,918
CASH AND CASH EQUIVALENTS, END OF PERIOD	$26,165,182	$2,446,084
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash	$548,655	$264,028
Term Deposits	25,616,527	2,182,056
	$26,165,182	$2,446,084

See accompanying notes to financial statements

1. ***DESCRIPTION OF BUSINESS***

Nature of Operations:

The Company's business continues to be in the development stage and is focused on the continued research and development of the next generation surgical robotic platform. In the near term, the Company will continue efforts toward a clinical grade platform to be used for clinical trials and satisfaction of appropriate regulatory requirements. Upon receipt of regulatory approvals, the Company will be in a position to transition from the research and development stage to the commercialization stage. The completion of these latter stages will be subject to the Company receiving additional funding in the future.

The Company is incorporated in Ontario, Canada in accordance with the Business Corporations Act.

The address of the Company's corporate office and its principal place of business is Toronto, Canada.

Basis of Preparation:

(a) Statement of Compliance

These financial statements for the years ending December 31, 2014 and December 31, 2013 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements were authorized for issue by the Board of Directors on February 10, 2015.

(b) Basis of Measurement

These financial statements have been prepared on the historical cost basis except for the revaluation of the warrant liability, which is measured at fair value.

(c) Functional and Presentation Currency

These financial statements are presented in United States dollars ("U.S."), which is the Company's functional and presentation currency.

Effective January 1, 2014, the Company changed its functional and presentation currency from the Canadian dollar to the U.S. dollar, applied on a prospective basis in accordance with IAS 21. This change reflects the continuing increase in the Company's costs being incurred in U.S. dollars, a trend which is expected to continue in the foreseeable future. As a result, an opening balance sheet as at January 1, 2013 has also been presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Use of Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of provisions at the date of the financial statements and the reported amount of expenses during the period. Financial statement items subject to significant judgement include the valuation of patent rights and the measurement of stock based compensation. While management believes that the estimates and assumptions are reasonable, actual results may differ.

Fair Value

The Black-Scholes model used by the Company to determine fair values of stock options and warrants was developed for use in estimating the fair value of the stock options and warrants. This model requires the input of highly subjective

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES* (continued)

assumptions including future stock price volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate.

(b) Cash and Cash Equivalents

Cash and cash equivalents include cash balances and term deposits with our Bank, having a maturity of 90 days or less at the time of issue.

(c) Short-term Investments

Short-term investments are made up of Guaranteed Investment Certificates that at the time of acquisition had a term greater than 90 days but less than 365 days.

(d) Furniture and Equipment

Furniture and equipment are recorded at cost less accumulated amortization and accumulated impairment losses, if any. The Company records amortization using the straight-line method over the estimated useful lives of the capital assets as follows:

a) Computer Equipment	3 years
b) Furniture and Fixtures	3 – 5 years
c) Leasehold Improvements	Term of the lease

(e) Impairment of long-lived assets

The Company reviews computer equipment, furniture and equipment, leasehold improvements and patent rights for objective evidence of impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Recoverability is measured by comparison of the assets carrying amount to the assets recoverable amount, which is the greater of fair value less cost to sell and value in use. Value in use is measured as the expected future discounted cash flows expected to be derived from the asset. If the carrying value exceeds the receivable amount, the asset is written down to the recoverable amount.

(f) Patent Rights

Patent rights are recorded at cost less accumulated amortization and accumulated impairment loss. Straight line amortization is provided over the estimated useful lives of the assets, as prescribed by the granting body, which range up to twenty years.

(g) Deferred Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, unused tax losses and income tax reductions, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

Management has determined not to recognize its net deferred tax assets, as it is not considered probable that future tax benefits will be realized.

2. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (continued)

(h) Foreign Currency

Transactions in currencies other than U.S. dollars are translated at exchange rates in effect at the date of the transactions. Foreign exchange differences arising on settlement are recognized separately in comprehensive loss. Monetary period end balances are converted to U.S. dollars at the rate in effect at that time as per the Bank of Canada.

Non-monetary items in a currency other than U.S. dollars that are measured in terms of historical cost are translated using the exchange rate at the date of transaction or date of adoption of U.S functional currency, whichever is later. Foreign exchange gains and losses are included in Comprehensive Loss.

(i) Warrant Liability

Effective January 1, 2014, the Company adopted, on a prospective basis, the U.S. dollar as its functional and presentation currency. In accordance with IAS 32, because the exercise prices of the warrants issued February 19, and April 23, 2014, as well as the warrants issued from the exercise of broker warrants, are not a fixed amount as they are denominated in a currency (Canadian dollar) other than the Company's functional currency (U.S. dollar), the warrants are accounted for as a derivative financial liability. Each Warrant Liability is initially measured at fair value and subsequent changes in fair value are recorded through Net and Comprehensive Loss for the period. The fair value of these warrants was determined initially using a comparable warrant quoted in an active market, adjusted for differences in the terms of the warrant. At December 31, 2014, the Warrant Liability was adjusted to fair value measured at the market price of the listed warrants.

(j) Fair Value Measurement

The accounting guidance for fair value measurements prioritizes the inputs used in measuring fair value into the following hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included within Level 1 that are directly or indirectly observable:

Level 3 – Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

The fair value of our Warrant liability is initially based on level 2 (significant observable inputs) and at December 31, 2014 is based on level 1, quoted prices (unadjusted).

(k) Stock Based Compensation

Currently all stock option grants are valued using the Black-Scholes option-pricing model. IFRS 2 requires options granted to employees and others providing similar services to be measured at the fair value of goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure the value and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted, which the Company does through the use of the Black-Scholes option-pricing model. The fair value of the options granted is as at the grant date.

Stock options granted to non-employees are valued using the Black-Scholes option-pricing model, rather than on the basis of the fair value of the services received. The Company does not have a history of performance with non-employees to reasonably estimate the fair value of the services to be received nor is there a definite expectation that their services will be required in the future.

In the event that the Company does have or establishes a history of performance with non-employees, options granted are valued on the basis of fair value of the services received.

2. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (continued)

(l) Research and Development Costs

Research and development activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are expensed as incurred. The costs of developing new products are capitalized as deferred development costs, if they meet the development capitalization criteria under IFRS. These criteria include the ability to measure development costs reliably, the product is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. To date, all of the research and development costs have been expensed as all of the criteria for capitalization have not yet been met.

(m) Earnings (loss) per Share

Basic earnings (loss) per share are calculated using the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share considers the dilutive impact of the exercise of 2,229,604 outstanding stock options (December 31, 2013 – 2,776,922) and 17,963,334 warrants, (December 31, 2013 – 23,705,018) as if the events had occurred at the beginning of the period or at a time of issuance, if later. Diluted loss per share has not been presented in the accompanying financial statements, as the effect would be anti-dilutive.

(n) Investment tax credits

As a result of incurring scientific research and development expenditures, management has estimated that there will be non-refundable federal and refundable and non-refundable provincial investment tax credits receivable following the completion of an audit process by tax authorities. Investment tax credits are recorded when received or when there is reasonable assurance that the credits will be realized. Upon recognition, amounts will be recorded as a reduction of research and development expenditures.

(o) Financial Instruments

The Company has designated its cash and cash equivalents, short term investments and amounts receivable as loans and receivables, which are measured at amortized cost. Amounts receivable include HST recoverable and accrued interest. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

(p) Short term Employee Benefits

Short-term employee benefit obligations including Company paid medical, dental and life insurance plans, are measured on an undiscounted basis and are expensed as the related service is provided.

(q) Provisions

A provision is recognized, if as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Presently the Company is not aware of the need for any material provisions nor has it recorded any except as otherwise disclosed in the financial statements.

(r) Lease payments

Payments made under operating leases are recognized as an expense on a straight line basis over the term of the lease. Lease incentives received, if any, are recognized as an integral part of the total lease expense over the term of the lease.

(s) Standards, Amendments and Interpretations Not Yet Effective

Following is a listing of amendments, revisions and new IFRSs, which have been issued and are effective for annual periods beginning after January 1, 2014.

IFRS 9 Financial Instruments, to replace IAS 39 and IFRIC 9, the effective date for which is fiscal periods beginning on or after January 1, 2018.

Management continues to assess the effect on the Company’s future results and Financial Position as a result of this new standard.

(In U.S. Dollars)

3. *FURNITURE AND EQUIPMENT*

	Computer Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Cost				
Balance at December 31, 2012	$64,049	$267,213	$172,601	$503,863
Additions (disposals)	68	(471)	-	(403)
Balance at December 31, 2013	$64,117	$266,742	$172,601	$503,460
Additions/(Disposals)	1,720	(5,259)	0	(3,539)
Balance at December 31, 2014	$65,837	$261,483	$172,601	$499,921
Amortization & Impairment Losses				
Balance at December 31, 2012	$41,019	$101,705	$45,797	$188,521
Amortization for the period	18,780	54,487	25,436	98,703
Impairment loss	-	87,045	101,368	188,413
Balance at December 31, 2013	$59,799	$243,237	$172,601	$475,637
Amortization for the period	4,369	3,649	0	8,018
Balance at December 31, 2014	$64,168	$246,886	$172,601	$483,655
Net Book Value				
At December 31, 2013	$4,318	$23,505	$0	$ 27,823
At December 31, 2014	$ 1,669	$14,596	$0	$ 16,265

4. *PATENT RIGHTS*

Cost	
Balance at December 31, 2012	$328,257
Additions	49,389
Balance at December 31, 2013	$377,646
Additions - net	126,842
Balance at December 31, 2014	$504,488
Amortization & Impairment Losses	
Balance at December 31, 2012	$138,788
Amortization for the year	2,676
Balance at December 31, 2013	$141,464
Amortization and other adjustments for the period	15,643
Balance at December 31, 2014	$157,107
Net Book Value	
At December 31, 2013	$236,182
At December 31, 2014	$347,381

5. *SHARE CAPITAL*

a) ***Authorized:*** unlimited number of common shares, no par value

Issued: 102,555,338 (December 31, 2013: 72,165,434)

Exercise prices of units, warrants and options are presented in Canadian currency as they are exercisable in Canadian dollars.

On April 23, 2014 Titan completed an offering of securities pursuant to an agency agreement dated April 10, 2014 between the Company and Dundee Securities Ltd. (“the Agent”). The offering consisted of 10,611,469 units and full over-allotment of 1,591,720 units for a total of 12,203,189 units at a price of CDN$2.10 per unit for aggregate gross proceeds of $23,232,936 ($21,606,685 net of closing costs including 6% cash commission of $1,362,426 paid in accordance with the terms of the agency agreement). Each unit comprised one common share of Titan and one warrant. Each warrant entitles its holder to purchase one additional common share of Titan for CDN$2.75 and will expire April 23, 2017. The warrants were valued at $3,539,901 using a comparable warrant quoted in an active market, adjusted for differences in the terms of the warrant and the balance of $19,693,035 was allocated to common shares.

Pursuant to the agency agreement, in addition to the cash commission paid to the Agent, broker warrants were issued to purchase 699,191 units. Each broker warrant entitles the holder thereof to acquire one unit of the Company at the price of CDN$2.10 for a period of 24 months following the closing date. Each unit consists of one common share and one warrant. Each warrant entitles the holder to acquire one common share of the Company at an exercise price of CDN$2.75 for a period of 36 months from the date of closing.

On February 19, 2014 Titan completed an offering of securities pursuant to an agency agreement dated February 10, 2014 between the Company and Dundee Securities Ltd. (“the Agent”). The offering consisted of 7,950,000 units and full over-allotment of 1,192,500 units for a total of 9,142,500 units at a price of CDN$1.40 per unit for aggregate gross proceeds of $11,588,667 ($10,608,580 net of closing costs including 6% cash commission of $675,242 paid in accordance with the

(In U.S. Dollars)

5. ***SHARE CAPITAL*** (continued)

terms of the agency agreement). Each unit comprised one common share of Titan and one warrant. Each warrant entitles its holder to purchase one additional common share of Titan for CDN$2.00 and will expire February 19, 2017. The warrants were valued at $1,407,195 using a comparable warrant quoted in an active market, adjusted for differences in the terms of the warrant and the balance of $10,181,472 was allocated to common shares.

Pursuant to the agency agreement, in addition to the cash commission paid to the Agent, broker warrants were issued to purchase 532,710 units. Each broker warrant entitles the holder thereof to acquire one unit of the Company at the price of CDN$1.40 for a period of 24 months following the closing date. Each unit consists of one common share and one warrant. Each warrant entitles the holder to acquire one common share of the Company at an exercise price of CDN$2.00 for a period of 36 months from the date of closing.

On March 13, 2013 Titan completed an offering of securities pursuant to an agency agreement. The offering consisted of 6,260,763 units at CDN$1.05 per unit for gross proceeds of $6,180,688 ($5,422,548 net of closing costs including a 7% commission of $432,648 paid in accordance with the terms of the agency agreement). Each unit comprised one common share of Titan and one warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company for CDN$1.25 and expires on March 13, 2018. The warrants were valued at $882,955 using a proportionate fair value method and the balance of $5,297,733 was allocated to common shares.

Pursuant to the agency agreement, in addition to the cash commission paid to the Agent, broker warrants were issued to purchase 438,253 common shares at a price of CDN$1.05 per share for a period of 24 months following the closing date.

b) **Warrants, Stock Options and Compensation Options**

Subject to shareholder approval, Titan has reserved and set aside up to 10% of the issued and outstanding shares of Titan for granting of options to employees, officers, consultants and advisors. At, December 31, 2014, 8,025,930 common shares (December 31, 2013: 4,439,622) were available for issue in accordance with the Company’s stock option plan. The terms of these options are determined by the Board of Directors. A summary of the status of the Company’s outstanding stock options as of December 31, 2014 and December 31, 2013 and changes during the years ended on those dates is presented in the following table:

	Year Ended December 31, 2014		Year Ended December 31, 2013	
	Number of stock options	Weighted-average exercise price (CDN)	Number of stock options	Weighted-average exercise price (CDN)
Balance, beginning	2,776,922	$0.66	2,602,452	$0.55
Granted	678,237	$1.90	1,378,251	$0.66
Exercised	(1,149,779)	$0.38	(967,165)	$0.29
Expired	(75,776)	$1.90	(236,616)	$1.04
Balance, ending	2,229,604	$1.14	2,776,922	$0.66

The weighted-average remaining contractual life and weighted-average exercise price of options outstanding and of options exercisable as at December 31, 2014 are as follows:

(In U.S. Dollars)

5. ***SHARE CAPITAL*** (continued)

	Options Outstanding			Options Exercisable	
Exercise price (CDN)	**Number outstanding**	**Weighted-average exercise price (CDN)**	**Weighted-average remaining contractual life (years)**	**Number exercisable**	**Weighted-average exercise price (CDN)**
$0.32	126,000	$0.32	.54	126,000	$0.32
$0.56	692,368	$0.56	3.58	692,368	$0.56
$0.64	10,000	$0.64	.58	10,000	$0.64
$0.68	50,000	$0.68	.71	50,000	$0.68
$0.83	49,591	$0.83	3.25	49,591	$0.83
$0.96	305,107	$0.96	4.00	305,107	$0.96
$1.27	80,000	$1.27	1.08	80,000	$1.27
$1.39	19,746	$1.39	4.96	19,746	$1.39
$1.39	47,532	$1.39	0.89	47,532	$1.39
$1.46	25,000	$1.46	1.50	25,000	$1.46
$1.49	102,759	$1.49	2.13	102,759	$1.49
$1.66	32,845	$1.66	1.63	32,845	$1.66
$1.67	100,000	$1.67	.79	100,000	$1.67
$1.76	106,096	$1.76	4.17	106,096	$1.76
$1.94	482,560	$1.94	4.42	151,877	$1.94
	2,229,604	$1.13	2.86	1,898,921	$0.99

Options are granted to Directors, Officers, Employees and Consultants at various times. Options are to be settled by physical delivery of shares.

(In U.S. Dollars)

5. *SHARE CAPITAL* (continued)

Stock options granted to non-employees, officers or directors are valued using the Black-Scholes pricing model, rather than on the basis of the fair value of the services received. The Company does not have a history of performance with non- employee individuals to reasonably estimate the fair value of the services to be received nor is there a definite expectation that their services will be required in the future.

In the event that the Company does have or establishes a history of performance with non-employees, options granted are valued on the basis of fair value of the services received.

Grant date/Person entitled	Number of Options	Vesting Conditions	Contractual life of Options
March 21, 2013, option grants to Directors	49,591	immediately	5 years
August 2, 2013, option grants to Directors	215,656	immediately	5 years
August 2, 2013, option grants to key employees	807,897	25% every 3 months from date of option grant	5 years
December 20, 2013 option grants to management and consultants	305,107	immediately	5 years
March 6, 2014, option grants to Officer	106,096	immediately	5 years
May 21, 2014, option grants to Directors, Officers and Consultants	151,877	immediately	5 years
May 21, 2014, option grants to Employees	400,518	Vest as to 1/3 of the total number of Options granted, every year from Option Date	5 years
December 16, 2014, option grants to Consultants	19,746	immediately	5 years

Inputs for Measurement of Grant Date Fair Values

The grant date fair value of all share based payment plans was measured based on the Black-Scholes formula. Expected volatility was estimated by considering historic average share price volatility. The inputs used in the measurement of fair values at grant date of the share based option plan are as follows:

	Directors, Management, Employees, Medical Advisors and Consultants	
	2014	2013
Fair Value at grant date (CDN)	\$0.91 - \$1.43	\$0.45 - \$0.75
Share price at grant date (CDN)	\$1.39 - \$1.94	\$0.56 - \$0.96
Exercise price (CDN)	\$1.39 - \$1.94	\$0.56 - \$0.96
Expected Volatility	83% - 106%	108% - 114%
Option Life	5 years	5 years
Expected dividends	nil	nil
Risk-free interest rate (based on government bonds)	1.31% - 1.67%	1.34% - 1.86%

(In U.S. Dollars)

5. ***SHARE CAPITAL*** (continued)

The following is a summary of outstanding warrants included in Shareholder's Equity as at December 31, 2014 and December 31, 2013 and changes during the periods then ended.

	December 31, 2014		December 31, 2013	
	Number of Warrants	**Amount**	**Number of Warrants**	**Amount**
Opening Balance	23,705,018	$8,022,005	17,444,255	$7,139,050
Issued March 13, 2013 Exercise Price of CDN$1.25 Expires March 13, 2018			6,260,763	882,955
Exercised during the period Exercise Price of CDN$1.25 Expiry March 13, 2018	(960,058)	(135,397)		
Exercised during the period Exercise Price CDN$1.75 Expiry December 16, 2016	(1,395,500)	(524,820)		
Exercised during the period Exercise Price CDN$1.77 Expiry March 14, 2017	(1,596,026)	(465,182)		
Exercised during the period Exercise Price CDN$2.00 Expiry June 21, 2016	(456,000)	(167,205)		
Exercised during the period Exercise Price CDN$1.85 Expiry December 10, 2015	(1,334,100)	(715,041)		
Ending Balance	17,963,334	$6,014,360	23,705,018	$8,022,005

In addition to the warrants listed above, at December 31, 2014, the Company has issued and outstanding from previous issues, 17,150 broker warrants.

(In U.S. Dollars)

6. *WARRANT LIABILTY*

	December 31, 2014	
	Number of Warrants	**Amount**
Issue of warrants expiring, February 19, 2017	9,142,500	$1,407,195
Issue of warrants expiring, April 23, 2017	12,203,189	3,539,901
Issue of Warrants from exercise of broker unit warrants	285,781	107,637
Warrants exercised during the period	(966,700)	(474,836)
Foreign exchange adjustment	-	(563,268)
Fair value adjustment	-	(1,018,666)
Balance at December 31, 2014	20,664,770	$2,997,963

In addition to the warrants listed above, at December 31, 2014, the Company has issued and outstanding from previous issues, 679,765 broker unit warrants.

7. *INCOME TAXES*

a) Current Income Taxes

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 26.5% (2013 – 26.5%) follows.

	December 31, 2014	**December 31, 2013**
Net loss before income taxes	($13,450,261)	$(8,784,993)
Income taxes at statutory rates	$(3,564,319)	$(2,328,023)
Tax effect of expenses not deductible for income tax purposes:		
Tax/ FX rate changes and other adjustments	141,616	69,715
Permanent differences	(126,809)	(143,517)
Unrecognized share issue costs	(690,442)	(201,230)
	(4,239,954)	(2,316,021)
Tax assets not recognized	4,239,954	2,316,021
	$ -	$ -

(In U.S. Dollars)

7. *INCOME TAXES* (continued)

b) Deferred Income Taxes

Deferred income tax assets and liabilities result primarily from differences in recognition of certain timing differences that give rise to the Company's future tax assets (liabilities) and are as follows:

	December 31, 2014	December 31, 2013
Non-capital losses	$11,448,769	$7,509,880
Qualifying research and development expenditures	2,501,449	2,501,449
Share issue costs and other	968,360	667,295
	14,918,578	10,678,624
Tax assets not recognized	(14,918,578)	(10,678,624)
Net deferred tax assets	$ -	$ -

In assessing the realizability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Management has determined not to recognize its deferred tax assets, as it is not considered probable that future tax benefits will be realized.

c) Losses carried forward

The Company has non-capital losses of approximately $43,202,904 available to reduce future income taxes. The non-capital losses expire approximately as follows:

2025	91,947
2026	230,847
2027	107
2028	633,610
2029	186,708
2030	2,003,596
2031	9,423,694
2032	6,517,436
2033	8,856,497
2034	15,258,462
	$43,202,904

The Company has accumulated Qualifying Research and Development expenses of $9,439,430 (December 31, 2013 $9,439,430) as a result of prior years research and development. These expenditures may be carried forward indefinitely and used to reduce taxable income in future years.

(In U.S. Dollars)

7. *INCOME TAXES* (continued)

d) Investment Tax Credits

At December 31, 2014, the Company has $2,021,091 (2013 - $2,021,091) of unclaimed investment tax credits available to reduce federal income taxes payable in future years. If not utilized, these investment tax credits will start expiring in 2028.

At December 31, 2014, the Company has $425,140 (2013 – $425,140) of unclaimed Ontario Research and Development Tax Credit (ORDTC) available to reduce Ontario income taxes payable in future years. If not utilized, these ORDTC will start expiring in 2029.

8. ***COMMITMENTS***

Effective July 15, 2011, the Company entered into a lease for premises in Ancaster, Ontario for its research and development program. This lease is for a term of 7.5 years. Monthly rent for the first 5 years is $7,017 and for the remaining 2.5 years is $7,719, plus HST.

Effective February 1, 2012, the Company exercised its option to lease an additional 4,477 square feet adjacent to its existing research and development facilities in Ancaster, Ontario. The additional space is under the same terms and conditions as the original lease, dated July 15, 2011.

Effective August 22, 2013, 3,957 square feet of this additional space has been sublet for a term of 5.5 years at a monthly rent of $2,325 per month to July 31, 2016 and $2,635 per month thereafter. The remaining leased space in Ancaster is redundant and the Company is taking efforts to sublet this space.

Effective March 1, 2012, the Company relocated its corporate office within Toronto. The new space occupies 1,000 square feet at an annual rental of $36,668 per year. Effective December 1, 2013 the company expanded its corporate office space to 2,296 square feet for a term of 24 months at an annual rent of $84,189.

As a part of its program of research and development around the SPORT™ Surgical System, the Company has outsourced certain aspects of the design and development to a U.S. based technology and development company. At December 31, 2014, $9,170,211 in purchase orders remain outstanding. The Company also has on deposit with this same U.S. supplier $860,000 to be applied against future invoices, as well as $40,000 applicable to other suppliers.

The Company has entered into a number of licensing agreements with suppliers and Universities that will require payments to be made to them, in future years, based on the achievement, by the Company, of certain milestones which could total up to $447,500. Subsequently, following commercialization, royalty payments will be required, based on a percentage of annual net sales of the licensed product, in the range of 4% to 6%.

The Company has entered into a number of licensing agreements with educational and medical institutions as well as suppliers, for the development and provision of items to be incorporated into the SPORT™ Surgical System. These agreements require Titan to make periodic payments in 2015 and beyond.

2015	$	80,000
2016	$	80,000
2017	$	80,000
2018	$	5,000
2019	$	5,000

2020 and thereafter $5,000

(In U.S. Dollars)

9. ***RELATED PARTY TRANSACTIONS***

Senior Executives and Directors of the Company earned total compensation in 2014 of $1,566,169 (December 31, 2013 - $1,824,654). In addition to cash compensation, Management and Directors received additional compensation composed of:

	2014	2013
Short-term employee benefits	$27,292	$ 32,600
Post-employment benefits	-	3,067
Termination benefits	-	2,651
Other long-term benefits	-	-
Stock based compensation	593,641	581,197
	$620,933	$619,515

During the year ended December 31, 2014, compensation and stock option transactions between the Company and directors, officers and other related parties were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the period, the Company retained the services of an individual related to a Senior Executive to provide consulting services in support of marketing efforts for the European market. Compensation includes the grant of stock options valued at $25,000, monthly consulting fees of U.S. $6,500 plus appropriate expenses. During the third quarter monthly Consulting fees were increased to $12,000.

Officers and Directors of the Company control approximately 6.22% of the Company.

	December 31, 2014		**December 31, 2013**	
	BASE	**%**	**BASE**	**%**
John Barker	183,632	0.18	149,000	0.21
Martin Bernholtz	1,341,500	1.31	1,291,500	1.79
Dennis Fowler	73,000	0.07	-	-
John Hargrove	148,200	0.14	56,200	0.08
Stephen Randall	102,800	0.10	45,600	0.06
Reiza Rayman	4,487,117	4.38	4,823,917	6.68
John Valvo	25,000	0.02	25,000	0.04
Bruce Wolff	12,200	0.01	-	-
TOTAL	6,373,449	6.22	6,391,217	8.86
Common Shares Outstanding	102,555,338	100%	72,165,434	100%

10. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, short-term investments, amounts receivable, accounts payable and accrued liabilities and warrant liability. The fair value of these financial instruments approximates their carrying values, unless otherwise noted, due to the short maturities of these instruments or the discount rate applied.

The Company's risk exposures and their impact on the Company's financial instruments are summarized below:

(a) Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents, short-term investments and amounts receivable. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents and short-term investments are held with reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments included in amounts receivable consists of HST tax due from the Federal Government of Canada and interest receivable from term deposits. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable is remote.

(b) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2014, the Company had cash and cash equivalents of $26,165,182 (December 31, 2013 - $2,446,084) to settle current liabilities of $2,766,315 (December 31, 2013 - $1,186,588) excluding warrant liabilities of $2,997,963 (December 31, 2013 – nil). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(c) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

(i) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade redeemable term deposit certificates and/or Guaranteed Investment Certificates issued by its Canadian banking institution. The Company periodically monitors the investments it makes and is satisfied with the credit risk of its bank.

(ii) Foreign currency risk

The Company's functional currency is the U.S. dollar. Expenditures transacted in Foreign Currency are converted to U.S. dollars at the rate in effect when the transaction is initially booked. The gain or loss on exchange, when the transaction is settled, is booked to the Statement of Operations. Management acknowledges that there is a foreign exchange risk derived from currency conversion. While Management has not hedged its foreign exchange risk it does maintain a balance of Canadian cash and cash equivalents and does purchase U.S. dollars when the spot rate is at a more favourable level.

(d) Sensitivity analysis

Cash equivalents include fully redeemable term deposits which mature within 90 days. Sensitivity to a plus or minus 1% change in interest rates could affect annual net loss by $265,165 (December 31, 2013 - $23,208) based on the current level of cash invested in cash equivalents.

A strengthening of the U.S. dollars at December 31, 2014, as indicated below, against Canadian current assets and accounts payable and accrued liabilities of Cdn $25,736,374 and $3,784,824 respectively (December 31, 2013, $2,581,414 and $517,690 would result in reduced equity and an increased loss for the period of $946,112 (December 31, 2013 - $96,996) as shown on the chart below. This analysis is based on foreign currency exchange rate variances that the Company considers to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for December 31, 2013.

(In U.S. Dollars)

10. FINANCIAL INSTRUMENTS (continued)

December 31, 2014	**Profit or (Loss)**
5% strengthening	
CDN current assets	$ (1,109,238)
CDN Accounts payable and accrued liabilities	$ 163,126
	$ (946,112)
December 31, 2013	
5% strengthening	
CDN current assets	$(121,327)
CDN Accounts payable and accrued liabilities	$ 24,331
	$ (96,996)

A weakening of the U.S. dollar against the Canadian dollar at December 31, 2014 and December 31, 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

11. CAPITAL MANAGEMENT

The Company's capital is composed of shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the development of its SPORT™ Surgical Platform (SPORT™). The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the SPORT™. The Company has further progress to make in the development of the SPORT™, and anticipates that the cost of completion will exceed its current resources. Accordingly, the Company will be dependent on external financing to fund a portion of its future activities. In order to carry out the completion of the SPORT™ and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2014. The Company is not subject to externally imposed capital requirements.

12. *SEGMENTED REPORTING*

The Company operates in a single reportable operating segment – the research and development of SPORT™, the next generation of surgical robotic platform.