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**INFORMATION CIRCULAR**

May 16, 2013

## INFORMATION CIRCULAR

### TABLE OF CONTENTS

INTRODUCTION .....	1
FORWARD-LOOKING STATEMENTS .....	1
INFORMATION CONTAINED IN THIS CIRCULAR .....	1
GENERAL PROXY MATTERS .....	2
APPOINTMENT, TIME FOR DEPOSIT AND REVOCABILITY OF PROXY .....	2
VOTING BY PROXY .....	2
MAIL .....	2
FAX .....	2
INTERNET .....	3
APPOINTING A PROXYHOLDER .....	3
REVOCATION OF VOTING INSTRUCTIONS OR PROXIES .....	3
VOTING OF PROXIES .....	4
VOTING SHARES AND PRINCIPAL HOLDERS THEREOF .....	4
BUSINESS OF THE MEETING .....	5
FINANCIAL STATEMENTS .....	5
ELECTION OF DIRECTORS .....	5
STATEMENT OF EXECUTIVE COMPENSATION .....	7
CORPORATE GOVERNANCE PRACTICES .....	12
APPOINTMENT AND REMUNERATION OF AUDITORS .....	16
RATIFICATION, CONFIRMATION AND APPROVAL OF THE CORPORATION'S STOCK OPTION PLAN .....	16
OTHER ITEMS OF BUSINESS .....	18
ADDITIONAL INFORMATION .....	18
DIRECTORS' APPROVAL .....	18
SCHEDULE "A" .....	A-1

**TITAN MEDICAL INC.**  
**INFORMATION CIRCULAR**  
May 16, 2013

**INTRODUCTION**

**This Information Circular (the “Circular”) is furnished in connection with the solicitation by the management of Titan Medical Inc. (the “Corporation”) of proxies to be used at the Annual and Special Meeting of shareholders (the “Meeting”) of the Corporation to be held in the Elliot Room, Borden Ladner Gervais LLP, Scotia Plaza, 40 King Street West, 44<sup>th</sup> Floor, Toronto, ON M5H 3Y4 (Toronto time) on Thursday, June 20, 2013 at the place and for the purposes set forth in the accompanying Notice of Meeting.** Except where otherwise indicated, this Circular contains information as of the close of business on May 16, 2013. It is expected that the solicitation will be primarily by mail but proxies may also be solicited personally by management of the Corporation at nominal cost. The cost of any such solicitation by management will be borne by the Corporation.

The Corporation may pay the reasonable costs incurred by persons who are the registered but not beneficial owners of voting shares of the Corporation (such as brokers, dealers, other registrants under applicable securities laws, nominees and/or custodians) in sending or delivering copies of this Circular and form of proxy to the beneficial owners of such shares. The Corporation will provide, without cost to such persons, upon request to the Secretary of the Corporation, additional copies of the foregoing documents required for this purpose.

**FORWARD-LOOKING STATEMENTS**

This Circular contains certain forward-looking statements with respect to the Corporation based on assumptions that management of the Corporation considered reasonable at the time they were prepared. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements.

**INFORMATION CONTAINED IN THIS CIRCULAR**

No person has been authorized to give information or to make any representations in connection with the matters to be considered at the Meeting other than those contained in this Circular and, if given or made, any such information or representations should not be relied upon in making a decision as to how to vote on the resolutions or be considered to have been authorized by the Corporation or the Board of Directors (the “**Board**” or “**Board of Directors**”) of the Corporation.

This Circular does not constitute an offer to buy, or a solicitation of an offer to sell, any securities. This Circular also does not constitute the solicitation of a proxy by any person in any jurisdiction in which such a solicitation is not authorized or in which the person making such a solicitation is not qualified to do so or to any person to whom it is unlawful to make such a solicitation.

Shareholders should not construe the contents of this Circular as legal, tax or financial advice and should consult with their own professional advisors as to the relevant legal, tax, financial or other matters in connection with the Meeting.

## GENERAL PROXY MATTERS

### APPOINTMENT, TIME FOR DEPOSIT AND REVOCABILITY OF PROXY

Shareholders of the Corporation are either registered or non-registered. Registered shareholders typically hold shares of the Corporation in their own names because they have requested that their shares be registered in their names on the records of the Corporation rather than holding such shares through an intermediary (intermediaries include, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSP's, RRIF's, RESP's and similar plans). Most shareholders are non-registered because their shares are registered in the name of either (a) an intermediary with whom the non-registered shareholder deals in respect of their shares, or (b) a clearing agency (such as The Canadian Depository for Securities Limited) of which the intermediary is a participant.

Only registered shareholders or duly appointed proxyholders will be permitted to vote at the Meeting. Non-registered shareholders may vote through a proxy or attend the Meeting to vote their own shares only if, before the Meeting, they communicate instructions to the intermediary or clearing agency that holds their shares. Instructions for voting through a proxy, appointing a proxyholder and attending the Meeting to vote are set out in this Circular.

A shareholder may receive multiple packages of Meeting materials if the shareholder holds shares of the Corporation through more than one intermediary or if the shareholder is both a registered shareholder and a non-registered shareholder for different shareholdings. Any such shareholder should repeat the steps to vote through a proxy, appoint a proxyholder or attend the Meeting, if desired, separately for each shareholding to ensure that all the shares from the various shareholders are represented and voted at the meeting.

### VOTING BY PROXY

Shareholders who are unable to be present at the Meeting may vote through the use of proxies. Shareholders should convey their voting instructions using one of the two voting methods available: (1) use of the form of proxy or voting instruction form to be returned by mail, delivery or facsimile, or (2) use of the Internet voting procedure. By conveying voting instructions in one of the two ways, shareholders can participate in the Meeting through the person or persons named on the voting instruction form or form of proxy.

To convey voting instructions through any of the two methods available, a shareholder must locate the voting instruction form or form of proxy, one of which is included with the Circular in the package of Meeting materials sent to all shareholders. The voting instruction form is a white, computer scannable document with red squares marked "X" (the "**voting instruction form**") and is sent to most non-registered shareholders. The form of proxy is a form headed "Form of Proxy" (the "**form of proxy**") and it is sent to all registered shareholders and a small number of non-registered shareholders.

### MAIL

A shareholder who elects to use the paper voting procedure should complete a voting instruction form or a form of proxy. If the form of proxy is already signed, do not sign it again. Complete the remainder of the voting instruction form or form of proxy. Ensure that you date and sign the form at the bottom. Completed voting instruction forms should be returned to the relevant intermediary in the envelope provided and should be received by the cut-off date shown on the voting instruction form. Completed forms of proxy should be returned in the envelope provided to the Corporation's transfer agent and registrar, Olympia Transfer Services Inc. ("**Olympia**"), 920 – 120 Adelaide Street West, Toronto, Ontario, M5H 1T1 no later than 5:00 p.m. (Toronto time) on June 19, 2013 (or the last business day preceding any adjournment of the Meeting).

### FAX

A shareholder who elects to use the facsimile voting procedure should complete a voting instruction form or a form of proxy. If the form of proxy is already signed, do not sign it again. Complete the remainder of the voting instruction form or form of proxy. Ensure that you date and sign the form at the bottom. Completed voting

instruction forms should be faxed to the relevant intermediary at the number provided and should be received by the cut-off date shown on the voting instruction form. Completed forms of proxy should be returned by fax to Olympia at (416) 364-1827 no later than 5:00 p.m. (Toronto time) on June 19, 2013 (or the last business day preceding any adjournment of the Meeting).

#### **INTERNET**

Shareholders may convey their voting instructions through the Internet. The relevant website address is set out on the voting instruction form and form of proxy. Follow the instructions given through the Internet to cast your vote. When instructed to enter your Web Voting ID Number, refer to your voting instruction form or your form of proxy. Votes conveyed by the Internet must be received no later than the cut-off time given on the voting instruction form or the form of proxy.

#### **APPOINTING A PROXYHOLDER**

Shareholders unable to attend the Meeting in person may participate and vote at the Meeting through a proxyholder. The persons named on the enclosed form of proxy as proxyholders to represent shareholders at the Meeting, being John Hargrove and Reiza Rayman, are directors and/or officers of the Corporation. **A shareholder has the right to appoint a person or company instead of those named above to represent such shareholder at the Meeting. A non-registered shareholder who would like to attend the Meeting to vote must arrange with the intermediary to have himself or herself appointed as the proxyholder.** To appoint a person or company instead of John Hargrove or Reiza Rayman as proxyholder, strike out the names on the voting instruction form or form of proxy and write the name of the person you would like to appoint as your proxyholder in the blank space provided. That person need not be a shareholder of the Corporation.

Non-registered shareholders appointing a proxyholder using a voting instruction form should fill in the rest of the form indicating a vote “for”, “against” or “withhold”, as the case may be, for each of the proposals listed, sign and date the form and return it to the relevant intermediary or clearing agency in the envelope provided or by facsimile by the cut-off time given on the form. Proxyholders named on a signed form of proxy will be entitled to vote at the Meeting upon presentation of the form of proxy. No person will be entitled to vote at the Meeting by presenting a voting instruction form.

Alternatively, any shareholder may use the Internet to appoint a proxyholder. To use this option, access the website address printed on the voting instruction form or form of proxy and follow the instructions set out on the website. Refer to the control number or holder account number and proxy access number printed on the voting instruction form or form of proxy when required to enter these numbers.

#### **REVOCATION OF VOTING INSTRUCTIONS OR PROXIES**

Voting instructions submitted by mail, facsimile or through the Internet using a voting instruction form will be revoked if the relevant intermediary receives new voting instructions before the close of business on June 19, 2013 (or the last business day before any adjournment of the Meeting).

Proxies submitted by mail, facsimile or through the Internet using a form of proxy may be revoked by submitting a new proxy to Olympia before 5:00 p.m. (Toronto time) on June 19, 2013 or the last business day before any adjournment of the Meeting. Alternatively, a shareholder who wishes to revoke a proxy may do so by depositing an instrument in writing to such effect addressed to the attention of the Corporation’s Secretary and executed by the shareholder or by the shareholder’s attorney authorized in writing. Such an instrument must be deposited at the registered office of the Corporation, located at 170 University Avenue, Suite 1000, Toronto, Ontario, M5H 3B3, before the close of business on June 19, 2013, or the last business day before any adjournment of the Meeting. On the day of the Meeting or any adjournment thereof, a shareholder may revoke a proxy by depositing an instrument in writing to such effect with the chair of the Meeting; however, it will not be effective with respect to any matter on which a vote has already been cast.

In addition, a proxy may be revoked by any other manner permitted by law.

## VOTING OF PROXIES

**The persons named in the enclosed form of proxy will vote, or withhold from voting, the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. In the absence of such direction, such shares will be voted for the election of directors and for the appointment and remuneration of auditors as stated under the relevant headings in this Circular.** The enclosed form of proxy confers discretionary authority upon the persons named therein to exercise their judgement and to vote with respect to amendments or variations to matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting. At the date hereof, the management of the Corporation knows of no such amendments or variations or of any other matters to come before the Meeting other than the matters referred to in the Notice of Meeting.

## VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

On May 9, 2013, the Corporation had outstanding 71,527,920 common shares, each carrying the right to one vote per share. Shareholders registered on the books of the Corporation (or their respective proxies) at the close of business on May 9, 2013 (the “**Record Date**”) are entitled to vote at the Meeting, except to the extent that a registered shareholder transfers any of such shareholder’s shares after May 9, 2013, and the transferee of such shares produces properly endorsed share certificates or otherwise establishes that such shareholder owns such shares and demands, not later than 10 days before the Meeting, that such shareholder’s name be included in the list of shareholders entitled to vote at the Meeting.

As at May 9, 2013, to the knowledge of the directors and senior officers of the Corporation, no person or company beneficially owns, directly or indirectly, or exercises control or direction over greater than 10% of the common shares of the Corporation.

## BUSINESS OF THE MEETING

### FINANCIAL STATEMENTS

The directors will place before the Meeting the financial statements for the year ended December 31, 2012 together with the auditors' report thereon. The financial statements will have already been mailed to shareholders that have requested them and are also available on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com) and on the Corporation's website at [www.titanmedicalinc.com](http://www.titanmedicalinc.com).

### ELECTION OF DIRECTORS

It is proposed that the persons named as nominees hereunder will be nominated at the Meeting. All directors are elected annually and all of the said nominees are presently directors of the Corporation. **Unless such authority is withheld, the person named in the enclosed form of proxy intends to vote for the election of the nominees whose names are set forth below. Management does not contemplate that any of the nominees will be unable to serve as a director but, if that should occur for any reason prior to the Meeting, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion.** Each director elected will hold office until the next annual meeting or until his office is earlier vacated in accordance with the by-law of the Corporation.

The following table and the notes thereto set out the names of all the persons proposed to be nominated for election as directors, their principal occupation, the date on which each became a director of the Corporation and the number of common shares of the Corporation beneficially owned, directly or indirectly, or over which control or direction is exercised by each of them as at May 9, 2013 as well as information concerning committee membership:

Name and Municipality of Residence	Principal Occupation	Director Since	No. of Common Shares Owned, Directly or Indirectly or Over Which Control or Discretion is Exercised <sup>(1)</sup>
<b>Reiza Rayman</b> <sup>(2)</sup> London, Ontario, Canada	President of the Corporation	2008	4,923,677
<b>Martin C. Bernholtz</b> <sup>(2)(3)</sup> Thornhill, Ontario, Canada	Vice President, Finance of Kerbel Group Inc.	2008	1,509,000
<b>John E. Barker</b> <sup>(2)(3)</sup> Burlington, Ontario, Canada	Corporate Director. Previously served as Senior Vice President, Finance, Chief Financial Officer and other senior executive positions at Zenon Environmental Inc.	2009	74,000
<b>John T. Hargrove</b> <sup>(3)</sup> Columbus, Georgia, U.S.A.	Interim Chief Executive Officer and Chairman of the Corporation	2010	6,200

**Notes:**

- (1) The information as to shares beneficially owned or over which control or direction is exercised, not being within the knowledge of the Corporation, has been furnished by the respective nominees individually.
- (2) Member of the Audit Committee of the Corporation.
- (3) Member of the Compensation Committee of the Corporation.

## ***Biographies of Directors***

The following are brief biographies of each of the nominees for director:

### *Reiza Rayman - President and Director*

Dr. Rayman's training in both biophysics and medicine has allowed a broad perspective on new technology and devices as they relate to surgery. As a researcher in fluid dynamics, he concentrated on the role of the fluid dynamics of blood flow as it relates to arteriosclerosis. During subsequent medical training, Dr. Rayman became interested in MIS techniques and devices, and researched the physiologic effects of MIS on infants during prolonged procedures. Additionally, his interest in the device area led to concepts and experimentation using magnetism for bowel retraction during MIS. Dr. Rayman collaborated with Dr. Doug Boyd to implement and develop new techniques related to robotic cardiac surgery. The two performed the world's first robotic beating heart cardiac bypass surgery in September 1999. Subsequently, Dr. Rayman authored grants to the federal and provincial governments to research several areas of robotic surgery. These grants were successful, and totalled to a program of \$30 million, the largest research program in the history of the London Health Sciences Centre. Dr. Rayman has conducted extensive research on substantially all available robotic platforms and is currently an active practitioner who has performed over 400 robotic surgeries. Dr. Rayman held roles including Assistant Professor, Department of Surgery, at the University of Western Ontario. Dr. Rayman holds an M.Sc. (Medical Biophysics) in Fluid Dynamics from The University of Western Ontario, an M.D. from The University of Toronto, and a Ph.D. in Telesurgery from The University of Western Ontario.

### *Martin C. Bernholtz - Director*

Mr. Bernholtz is employed as Vice President, Finance with Kerbel Group Inc., an integrated construction and land development company. In this capacity he is responsible for finance, accounting, personnel and residential management. He has been with Kerbel Group Inc. since 1988. He also serves as a director of several residential and commercial condominiums. Mr. Bernholtz graduated with a bachelor degree in business administration from York University in 1981. He became a Chartered Accountant in 1984.

### *John E. Barker - Director*

Mr. Barker is a finance professional with general management experience. Mr. Barker previously acted as the Senior Vice President of Finance, Chief Financial Officer and in other senior executive positions at Zenon Environmental Inc., a Toronto Stock Exchange listed company, from 2000 to 2006. In this capacity, Mr. Barker was responsible for, among other things, corporate finance and compliance. Mr. Barker currently sits as a director and Audit Committee Chair of Ecosynthetix Inc., a TSX listed company. Mr. Barker graduated with a bachelor degree majoring in business from McMaster University in 1971. He became a Certified Management Accountant in 1973 and a Fellow of the Society of Management Accountants in 2006.

### *John T. Hargrove – Interim Chief Executive Officer, Chairman and Director*

Mr. Hargrove is currently the Interim Chief Executive Officer and Chairman of the Corporation. He is also a principal with H & H Consulting Group, and has over 30 years of executive-level health care experience. The majority of his distinguished health care career was spent with the Johnson & Johnson Family of Companies where he held positions of increasing responsibility in sales, marketing and corporate account management at Ethicon, Ethicon Endo-Surgery and Johnson & Johnson Health Care Systems. During his final position with Johnson & Johnson as Vice President of Corporate Accounts, Mr. Hargrove developed and led one of the first and most effective corporate sales programs in the health care industry. Following Johnson & Johnson, Mr. Hargrove joined Ohmeda Inc. as President, Corporate Account Management. While at Ohmeda, he successfully developed and implemented a multi-divisional corporate sales program, resulting in multi-year contracts with the majority of the largest Group Purchasing Organizations in the United States. Under Mr. Hargrove's supervision, Ohmeda's Corporate Account Division assisted buying groups, hospitals and integrated delivery networks in overall business and strategic planning and helped numerous customers who were under pressure to measure quality healthcare according to business as well as clinical and safety outcomes. Mr. Hargrove holds a Bachelor of Arts degree in



Marketing from the University of Georgia and has completed executive management programs at Duke, Harvard and the University of Michigan.

### ***Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions***

To the knowledge of the Corporation, none of the persons nominated for election as directors at the Meeting: (a) is, as at the date of this Circular, or has been, within the 10 years before the date of this Circular, a director, chief executive officer or chief financial officer of any company that: (i) was subject to a cease trade order, or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days (an “**Order**”) that was issued while the person was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to a cease trade order, an order similar to an Order that was issued after the person ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer; (b) is, as at the date of this Circular, or has been within 10 years before the date of this Circular, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (c) has, within the 10 years before the date of this Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the person.

To the knowledge of the Corporation, none of the persons nominated for election as directors at the Meeting, nor any personal holding company thereof owned or controlled by them: (i) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### ***Interest of Management and Others in Material Transactions***

No proposed director of the Corporation or informed person, or any associate or affiliate of a proposed director of the Corporation or informed person has any material interest, direct or indirect, in any transaction in which the Corporation has participated since the commencement of the Corporation’s most recently completed financial year, or in any proposed transaction which has materially affected or will materially affect the Corporation.

## **STATEMENT OF EXECUTIVE COMPENSATION**

### ***Named Executive Officers***

The Corporation had four Named Executive Officers in 2012, being:

- (a) Craig Leon, Chairman and Chief Executive Officer<sup>1</sup>;
- (b) Reiza Rayman, President;
- (c) Stephen Randall, Chief Financial Officer and Secretary of the Corporation; and
- (d) Joe Talarico, Senior Vice President, Business Development,

(collectively, the “**Named Executive Officers**” or “**NEO**”).

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<sup>1</sup>Craig Leon resigned as Chairman and a director of the Corporation on April 5, 2013, following his resignation as Chief Executive Officer of the Corporation on March 19, 2013.

## *Compensation Discussion and Analysis*

The Board of Directors is responsible for evaluating compensation for the Chief Executive Officer, the President and the Chief Financial Officer and reviewing their salaries and any bonuses on an annual basis. The Chief Executive Officer and the President are responsible for evaluating and reviewing the salaries and bonuses of all other officers, employees and consultants of the Corporation. While the Board of Directors of the Corporation has not adopted a written policy concerning the compensation of executive officers, it has developed a consistent approach and philosophy relating to executive compensation. The overriding principles in the determination of executive compensation are the need to provide total compensation packages that will attract and retain qualified and experienced executives, reward the executives for their contribution to the overall success of the Corporation and integrate the longer term interest of the executives with the investment objectives of the Corporation's shareholders.

The Corporation has only four executive officers, and places primary importance on the talent of these employees to manage and grow the Corporation. Based on the size of the Corporation and its relatively small number of employees, the Corporation's executives are required to be multi-disciplined, self-reliant and highly experienced. In determining specific compensation amounts for the Chief Executive Officer, the President, the Chief Financial Officer and the Senior Vice President, Business Development, the Board of Directors considers factors such as experience, individual performance, length of service, role in achieving corporate objectives, positive research and development results, stock price and compensation compared to other employment opportunities for executives.

The Corporation is an early-stage company engaged in the development and commercialization of robotic surgical technologies. As the Corporation is in the product development stage, it cannot rely on revenues from its operations to finance its activities and advance its goals. Consequently the Corporation looks to raising the requisite capital to finance such activities through equity financings, which are influenced by the financial market's assessment of the Corporation's overall enterprise value and its prospects. These in turn are influenced, to a great extent, by the results of its research and development activities and progress in commercializing robotic surgical technologies. The contribution that each of the Chief Executive Officer and the President make to this endeavour, on a subjective analysis by the Board of Directors at the end of each fiscal year, is the primary factor in determining aggregate compensation. In considering such contribution, the Board of Directors considers various factors, including, among other things, (i) the ongoing and progressive development of the Corporation's robotic surgical technology; (ii) the identification and attainment of appropriate milestones that adequately reflect the ongoing development of the Corporation's robotic surgical technology, (iii) the formation and development of key partnerships with leading academic and research organizations through which the Corporation's products can be tested, and (iv) the recruitment, management and retention of qualified technical and other personnel, among other things.

Executive compensation consists of base salary or professional consulting fees, cash bonuses and long-term incentive stock options. In establishing compensation, the Board of Directors attempts to pay competitively in the aggregate as well as deliver an appropriate balance between annual compensation (base salary or professional consulting fees and cash bonuses) and long-term compensation (long-term incentive stock options).

The Corporation has established a stock option plan for officers, directors, employees and service providers of the Corporation, prepared in compliance with the requirements of the TSX-V, which is administered by the Board of Directors. The purpose of the Corporation's stock option plan is to advance the interests of the Corporation by closely aligning the participants' personal interests with those of the Corporation's shareholders generally. Subject to the provisions of the stock option plan, the Board of Directors determines and designates from time to time the optionees to whom options are to be granted, the number of common shares to be optioned and the other terms and conditions of the stock option grant. The Board of Directors considers factors such as individual performance, the significance of individual contribution to the success of the Corporation, experience, and length of service in determining the amounts of options awarded. See "Ratification, Confirmation and Approval of the Corporation's Stock Option Plan" for further information on the stock option plan.

### Summary Compensation Table

The following table and the notes thereto sets forth information concerning annual total compensation for the Named Executive Officers for the fiscal years ended December 31, 2012, 2011 and 2010.

Name and principal position	Year Ended Dec. 31	Salary (\$)	Share-based Awards (\$)	Option-based Awards <sup>(1)</sup> (\$)	Non-equity Incentive Plan Compensation (\$)		Pension Value (\$)	All Other Compensation (\$)	Total Compensation (\$)
					Annual Incentive Plans	Long-term Incentive Plans			
<b>Craig Leon</b> <i>Chairman &amp; Chief Executive Officer</i>	2012	261,375 <sup>(2)(3)</sup>	0	0	60,000 <sup>(4)</sup>	0	0	0	321,375
	2011	254,167	0	75,000	50,000	0	0	0	379,167
	2010	250,000	0	91,905	45,000	0	0	0	386,905
<b>Reiza Rayman</b> <i>President</i>	2012	235,750 <sup>(5)</sup>	0	0	0	0	0	0	235,750
	2011	229,167	0	75,000	50,000	0	0	0	354,167
	2010	210,417	0	91,905	45,000	0	0	0	347,322
<b>Stephen Randall</b> <i>Chief Financial Officer and Secretary</i>	2012	153,750	0	0	0	0	0	0	153,750
	2011	150,000	0	37,500	25,000	0	0	0	212,500
	2010	85,000	0	26,946	10,000	0	0	0	121,946
<b>Joe Talarico</b> <i>Senior Vice President, Business Development</i>	2012	210,920 <sup>(6)</sup>	0	0	0	0	0	0	210,920
	2011	201,846	0	0	100,000	0	0	0	301,846
	2010	120,393	0	154,483	0	0	0	0	274,876

#### Notes:

- (1) The fair value of options granted was estimated at the date of grant using the Black-Scholes option pricing model using assumptions based on expected life, risk free rate, expected dividend yield and expected volatility.
- (2) Craig Leon resigned as Chief Executive Officer of the Corporation on March 19, 2013 and as Chairman and a director of the Corporation on April 5, 2013.
- (3) Craig Leon's services agreement was amended on November 17, 2009 and ended on March 19, 2013. The amended services agreement provides for annual cash compensation of \$250,000 and required Craig Leon to devote 100% of his working time to rendering services to the Corporation.
- (4) On April 1, 2013, Craig Leon was awarded a \$60,000 bonus for services performed during the fiscal year ended December 31, 2012.
- (5) Reiza Rayman's services agreement was amended on November 17, 2009. The amended services agreement provided for annual cash compensation of \$200,000 and required Reiza Rayman to devote on average approximately 80% of his working time to rendering services to the Corporation. In August 2010, annual cash compensation under the amended services agreement was increased to \$225,000. In addition, Reiza Rayman's working time commitment to the Corporation was increased to 90% of his working time.
- (6) Joe Talarico's annual salary is \$206,000 per year in U.S. Dollars. This amount has been converted to Canadian Dollars using the average exchange rate for the period.

***Outstanding share-based awards and option-based awards***

The following table shows all awards granted to Named Executive Officers and outstanding on December 31, 2012.

Name	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised options (#)	Option Exercise Price (\$)	Option Expiration Date	Value of unexercised in-the-money options (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
<b>Craig Leon</b>	274,765	\$0.24	10-Sept-2014	\$263,774	0	0	0
	80,000	\$1.27	09-Feb-16	\$0	0	0	0
	59,413	\$1.49	14-Feb-17	\$0	0	0	0
<b>Reiza Rayman</b>	146,740	\$0.31	28-July-2013	\$130,598	0	0	0
	173,160	\$0.24	10-Sept-2014	\$166,233	0	0	0
	80,000	\$1.27	09-Feb-16	\$0	0	0	0
	59,413	\$1.49	14-Feb-17	\$0	0	0	0
<b>Stephen Randall</b>	25,000	\$0.64	10-Aug-2015	\$14,000	0	0	0
	29,706	\$1.49	14-Feb-17	\$0	0	0	0
<b>Joe Talarico</b>	600,000	\$0.30	04-Jun-15	\$540,000	0	0	0

***Incentive Plan Awards – Value Vested or Earned During Fiscal Year***

The following table shows the value from incentive plans vested or earned by Named Executive Officers under the Corporation’s incentive plans and the annual incentive bonus payout during the financial year ended December 31, 2012.

Name	Option-based awards – Value vested during the year (\$)	Share-based awards – Value vested during the year (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
<b>Craig Leon</b>	\$75,705	0	0
<b>Reiza Rayman</b>	\$75,705	0	0
<b>Stephen Randall</b>	\$35,941	0	0
<b>Joe Talarico</b>	\$8,044	0	0

***Stock Option Plan and Stock Options***

See “Ratification, Confirmation and Approval of the Corporation’s Stock Option Plan” for information on the Corporation’s stock option plan.

### ***Securities Authorized for Issuance Under Equity Compensation Plan***

The following table sets forth certain information as of December 31, 2012 with respect to compensation plans under which equity securities of the Corporation are authorized for issuance:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining for future issuance under equity compensation plan</b>
Equity compensation plan approved by securityholders	2,602,452	\$0.55	3,872,037

### ***Termination and Change of Control Benefits***

No NEO is entitled to any form of compensation as a result of termination or change of control of the Corporation.

### ***Indebtedness of Directors and Executive Officers***

None of the directors or executive officers of the Corporation are indebted to the Corporation.

### ***Compensation of Directors***

For the year ended December 31, 2012, compensation of directors was as follows: each director of the Corporation received an annual retainer of \$10,000 and an additional \$500 for each board meeting attended to May 15, 2012. Subsequent to May 15, 2012, each Director received \$1,000 for each board meeting attended. Each non-employee director who also served as chair of a committee of the board received an additional \$2,500.

The Board of Directors determines the form of payment of the compensation paid to directors. Directors are eligible to be granted stock options under the Corporation's stock option plan. For the year ended December 31, 2012, the Board determined that 100% of the compensation for directors would be provided in the form of options granted under the Corporation's stock option plan. The table below reflects in detail the compensation earned by non-employee directors in the 12-month period ended December 31, 2012.

<b>Name</b>	<b>Fees Earned (\$)</b>	<b>Share-based Awards (\$)</b>	<b>Option-based Awards (\$)</b>	<b>Non-equity Incentive Plan Compensation (\$)</b>	<b>Pension Value (\$)</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
<b>Martin C. Bernholtz</b>	0	0	27,000	0	0	0	27,000
<b>John E. Barker</b>	0	0	25,000	0	0	0	25,000
<b>John T. Hargrove</b>	0	0	23,500	0	0	0	23,500

### ***Directors' and Officers' Insurance***

The Corporation maintains insurance for the benefit of the Corporation and its directors and officers as a group, in respect of the performance by them of duties of their office. The amount of insurance purchased for the period commencing January 1, 2012 and ended December 31, 2012, was for an aggregate limit of liability (inclusive of costs of defence) of \$7,000,000. There is a deductible amount on a per loss basis of up to \$25,000 for a claim against the Corporation. The premium is paid by the Corporation without distinction as to directors as a group or officers as a group. The premium paid for such insurance in 2012 was \$21,600.

### ***Outstanding share-based awards and option-based awards***

The following table shows all option-based and share-based awards granted to non-employee directors and outstanding on December 31, 2012.

Name	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised options (#)	Option Exercise Price (\$)	Option Expiration Date	Value of unexercised in-the-money options (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
<b>Martin C. Bernholtz</b>	217,500	\$0.30	23-April-2013	195,750	0	0	0
	38,962	\$0.24	10-Sept-2014	37,404	0	0	0
	39,000	\$0.32	15-Jul-2015	34,320	0	0	0
	11,633	\$1.66	15-Aug-2016	0	0	0	0
	16,750	\$1.39	15-May-2017	0	0	0	0
<b>John E. Barker</b>	75,000	\$0.30	4-Nov-2013	67,500	0	0	0
	34,632	\$0.24	10-Sept-2014	33,247	0	0	0
	37,000	\$0.32	15-Jul-2015	32,560	0	0	0
	10,606	\$1.66	15-Aug-2016	0	0	0	0
	15,391	\$1.39	15-May-2017	0	0	0	0
<b>John T. Hargrove</b>	50,000	\$0.68	14-Sept-2015	26,000	0	0	0
	10,606	\$1.66	15-Aug-2016	0	0	0	0
	15,391	\$1.39	15-May-2017	0	0	0	0

#### *Incentive Plan Awards – Value Vested or Earned During Fiscal Year*

The following table shows the value from incentive plans vested or earned by non-employee directors under the Corporation's incentive plans and the annual incentive bonus payout during the financial year ended December 31, 2012.

Name	Option-based awards – Value vested during the year (\$)	Share-based awards – Value vested during the year (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
<b>Martin C. Bernholtz</b>	18,500	0	0
<b>John E. Barker</b>	17,000	0	0
<b>John T. Hargrove</b>	17,000	0	0

#### **CORPORATE GOVERNANCE PRACTICES**

The Canadian Securities Administrators have adopted National Instrument 58-101 – *Disclosure of Corporate Governance Practices* (the “**Disclosure Rule**”). The Disclosure Rule establishes disclosure requirements regarding corporate governance practices of a reporting issuer as well as the requirement to file any written code of business conduct and ethics that a reporting issuer has adopted. Set out below is a description of the Corporation's approach to corporate governance as required by the Disclosure Rule.

#### *Board of Directors*

Currently, two of the four members of the Board of Directors are independent directors. An independent director is defined as a director who has no direct or indirect material relationship with the Corporation, being a relationship which could be reasonably expected to interfere with the exercise of a director's independent judgement. Messrs. Reiza Rayman and John Hargrove are considered to be non-independent by virtue of their management positions with the Corporation and their employment relationships with the Corporation. The Board believes that their extensive knowledge of the Corporation's business and affairs is beneficial to the other directors and their participation as directors contributes to the effectiveness of the Board. Messrs. Bernholtz and Barker are considered to be independent directors. These determinations were made by the Board based upon an examination of the

factual circumstances of each director and consideration of any interests, business or relationships, which any director may have with the Corporation.

As of the date of this Circular, the independent directors do not currently hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. At the present time, the Board believes that the knowledge, experience and qualifications of its independent directors are sufficient to ensure that the Board can function independently of management and discharge its responsibilities.

The Chairman of the Board, John Hargrove, who also serves as Interim Chief Executive Officer, is not an independent director, nor does the Corporation have a designated lead director. The Board utilizes its own in-house expertise, and that of its legal counsel, to provide advice and consultation on current and anticipated matters of corporate governance.

### ***Director Meetings***

The Board of Directors held ten meetings during the financial year ended December 31, 2012. The following table summarizes the attendance record for each of the directors at meetings of the Board of Directors, Audit Committee and Compensation Committee.

Name	Number of Meetings Attended by the Directors		
	Board of Directors	Audit Committee	Compensation Committee
<b>Reiza Rayman</b>	10/10	4/4	N/A
<b>Craig Leon</b>	10/10	N/A	N/A
<b>Martin C. Bernholtz</b>	10/10	4/4	4/4
<b>John E. Barker</b>	10/10	4/4	4/4
<b>John T. Hargrove</b>	10/10	N/A	4/4

### ***Other Reporting Issuer Experience***

The following directors of the Corporation are directors of the following reporting issuers (other than the Corporation) as of the date of this Circular:

Name	Name of Reporting Issuer	Name of Exchange/Market
<b>Martin C. Bernholtz</b>	PetroCorp Group Inc. Covalon Technologies Inc. SelectCore Ltd.	TSX TSX-V TSX-V
<b>John E. Barker</b>	Ecosynthetix Inc.	TSX

### ***Board Mandate***

The Board of Directors is responsible for the overall stewardship of the Corporation. This responsibility is discharged by the Board through supervision of its officers and their management of the business and affairs of the Corporation and by:

- overseeing the Corporation's strategic planning process;
- recognizing the principal risks to the Corporation's business and ensuring that systems to monitor and manage those risks are implemented;
- establishing and monitoring the Corporation's corporate governance framework;

- managing and overseeing the Corporation's succession planning process, including the appointment, training and appraisal of the senior management team;
- overseeing the Corporation's policy for communication with shareholders, the investment community, the media, governments and the general public;
- overseeing the integrity of the Corporation's internal control and management information systems; and
- establishing committees and charters for committees and monitoring compliance with such charters.

### ***Position Descriptions***

The Board has not developed written position descriptions for the chair of each committee; however, the Board has developed written position descriptions for the Chair of the Board of Directors and the Chief Executive Officer. The Board believes that formulating position descriptions for the chair of each board committee is generally more appropriate for corporations of significantly larger size and complexity than the Corporation and which may have significantly larger boards of directors. With respect to management's responsibilities, generally, any matters of material substance to the Corporation are submitted to the Board for, and are subject to, its approval. Such matters include those matters which must by law be approved by the Board (such as share issuances) and other matters of material significance to the Corporation, including any debt or equity financings, investments, acquisitions and divestitures, and the incurring of material expenditures or legal commitments. The Board and/or its audit committee also reviews and approves the Corporation's major communications with shareholders and the public including the annual report, if any, (and financial statements contained therein), quarterly reports to shareholders, the annual management information circular and the annual information form. The specific corporate objectives which the chief executive officer is responsible for meeting (aside from the overall objective of enhancing shareholder value) are, in the Corporation's case, typically related to the advancement, growth, management and financing of the Corporation and its research and development project and matters ancillary thereto.

### ***Orientation and Continuing Education***

The Corporation does not provide a formal orientation or education program for Board members, as it believes that such programs are not appropriate for a development stage company with an experienced Board, the members of which have been selected for their specific expertise.

The Corporation's directors are highly experienced and knowledgeable, both individually and as a group. The directors have either a medical or business background and have long careers in or related to the medical, health or financial industry and are intimately familiar with the Corporation's project, through sufficient interactions with management and technology developers.

To ensure that the Board has and maintains the skill and knowledge necessary for them to meet their obligations as directors of the Corporation, each of the directors has visited the Corporation's research and development facility. Summary technology presentations by management relating to various aspects of the Corporation's project is made at meetings of the Board. The Board believes that discussion among the directors and management at these meetings provides a valuable learning resource for the directors with non-technical expertise in the subject matter presented, and that those directors provide management with valuable insights into broader issues facing the Corporation.

### ***Ethical Business Conduct***

The Board has not adopted a written code of conduct for its directors, officers and employees, as it believes that a code of conduct is generally more appropriate for corporations of significantly larger size and complexity than the Corporation and which may have significantly larger boards of directors.



In order to ensure that the directors exercise independent judgment in considering transactions and agreements, the Board requires that all directors declare any conflicts of interest with issues or situations as they arise. This would include transactions/agreements in which a director/officer has material interest.

### ***Nomination of Directors***

Given the Corporation’s current stage of development and size of the Board, the Board is presently of the view that it functions effectively as a committee of the whole with respect to the nomination of directors. The entire Board will assess potential nominees and take responsibility for selecting new directors. The nominees are generally the result of recruitment efforts by the Board members, including both formal and informal discussion among Board members and the Chief Executive Officer of the Corporation.

### ***Audit Committee***

The Board of Directors has established an Audit Committee. The Audit Committee met four times during the financial year ended December 31, 2012.

#### Audit Committee Charter

The text of the Audit Committee Charter is attached as Schedule “A” to this Circular.

#### Composition of the Audit Committee

As of May 9, 2013, the table below sets out the members of the Audit Committee and states whether they are financially literate and/or independent.

<b>Director</b>	<b>Independent</b>	<b>Financially Literate</b>
Dr. Reiza Rayman	No	Yes
John E. Barker	Yes	Yes
Martin C. Bernholtz	Yes	Yes

#### Relevant Education and Experience

All three directors on the Corporation’s Audit Committee have been senior officers and/or directors of publicly traded companies and business executives for a number of years. In these positions, each director has been responsible for receiving financial information relating to the entities of which they were directors. They had, or have developed, an understanding of financial statements generally and understand how those statements are used to assess the financial position of a company and its operating results. Each member of the Audit Committee also has a significant understanding of the business in which the Corporation is engaged and has an appreciation for the relevant accounting principles for the Corporation’s business.

#### External Auditor Service Fees

The table below sets out all fees billed by the Corporation’s external auditor in respect of the last two financial years.

<b>Financial Year Ended</b>	<b>Audit Fees<sup>(1)</sup></b>	<b>Audit-Related Fees<sup>(2)</sup></b>	<b>Tax Fees<sup>(3)</sup></b>	<b>All Other Fees<sup>(4)</sup></b>
December 31, 2012	\$44,405	\$21,400	\$5,500	\$63,166
December 31, 2011	\$42,400	\$29,650	\$5,500	\$96,900

#### **Notes:**

- (1) “Audit Fees” are fees billed by the Corporation’s external auditor for services provided in auditing the Corporation’s financial statements for the financial year.

- (2) “Audit-Related Fees” are fees not included in Audit Fees that are billed by the auditor for assurance and related services that are reasonably related to performing the audit or reviewing the Corporation’s interim financial statements.
- (3) “Tax Fees” are fees billed by the auditor for professional services rendered for tax compliance, tax advice and tax planning.
- (4) “All Other Fees” are fees billed by the auditor for products and services not included in the previous categories.

### ***Compensation***

Compensation matters are dealt with by the Compensation Committee of the Corporation. The function of the Compensation Committee is to review the compensation terms of each officer of the Corporation annually as well as at any other times as necessary. After considering inputs from senior management, the Compensation Committee makes a recommendation to the Board for approved compensation terms for each officer of the Corporation. Among other things, the Compensation Committee also recommends the structure of the compensation in terms of the amount of cash and/or number of options to be granted.

John T. Hargrove, the chair of the Compensation Committee, has several years of experience in compensation administration, gained through senior leadership roles. The other members of the Compensation Committee have several years of relevant experience, having served as senior business executives with other companies and as members of compensation committees of other companies.

Two of the members of the Compensation Committee, namely, Messrs. Bernholtz and Barker, are considered to be independent directors. John Hargrove, who also serves as a member of the Compensation Committee, was appointed interim Chief Executive Officer on March 19, 2013. Whereas prior to his appointment as the interim Chief Executive Officer, he was considered an independent director, Mr. Hargrove is no longer considered to be independent as a result of the appointment. The Compensation Committee met four times during the financial year ended December 31, 2012.

### ***Other Board Committees***

The Board has no standing committee other than the Audit Committee and the Compensation Committee.

### ***Assessments***

The Board, its committees and individual directors are not regularly assessed with respect to their effectiveness and contribution, as the Board believes that such assessments are generally more appropriate for corporations of significantly larger size and complexity than the Corporation and which may have significantly larger boards of directors. A more formal assessment process will be instituted as, if, and when the Board deems necessary.

### **APPOINTMENT AND REMUNERATION OF AUDITORS**

Unless such authority is withheld, the persons named in the enclosed instrument of proxy intend to vote for the re-appointment of BDO Canada LLP, Chartered Accountants, Licensed Public Accountants, of Toronto, Ontario, as auditors of the Corporation to hold office until the next annual meeting of shareholders and to authorize the directors to fix their remuneration. BDO Canada LLP were first appointed auditors of the Corporation on December 13, 2010.

### **RATIFICATION, CONFIRMATION AND APPROVAL OF THE CORPORATION’S STOCK OPTION PLAN**

At the Corporation’s last annual and special meeting, held on May 15, 2012, the shareholders approved the Corporation’s stock option plan (the “**Plan**”). The rules of the TSX-V require the Plan to receive shareholder approval yearly. Key provisions of the Plan are summarized below and a copy of the Plan will be available for review by the shareholders at the Meeting.

### ***Terms of the Plan***

Directors, officers and employees of the Corporation, as well as persons who provide a service to the Corporation (such as consulting researchers, doctors and other consultants), are eligible to be granted options under the Plan even if they are not full time employees of the Corporation. The purpose of the Plan is to advance the interests of the Corporation by closely aligning the participants' personal interests with those of the Corporation's shareholders generally.

Options granted under the Plan are granted at the discretion of the Board of Directors and are typically granted in such numbers as reflect the level of responsibility and participation of the particular optionee as determined over the course of the year. The terms of the Plan provide that the aggregate number of common shares issuable thereunder (and under any other employee stock option plans or other share compensation arrangements) cannot, at the time of the option grant, exceed 10% of the Corporation's issued capital. Grants of options made in previous years are not taken into consideration when new option grants are being considered because the criteria for determining new option grants are based on performance in the current year and the availability of options for grant.

The price at which shares may be issued upon exercise of options granted under the Plan cannot be less than that from time to time permitted under the rules of any stock exchange or exchanges on which the common shares are then listed. Options issued under the Plan may be exercised during a period determined by the Board of Directors, which typically shall not exceed five years (the exercise period may be increased up to ten years from the date the option is granted should the Corporation receive the permission of the stock exchange on which the common shares are then listed), and are subject to earlier termination upon the termination of the employee's employment, upon the optionee ceasing to be a director and/or officer of the Corporation, or upon the retirement, permanent disability or death of an optionee. The options vest over a period determined by the Board of Directors. The options are non-transferable and non-assignable unless specifically provided for in the Plan. There is no agreement under which financial assistance will be provided by the Corporation to facilitate the purchase of shares under the Plan.

The Plan permits the Board of Directors to suspend or terminate the Plan, as well as to amend or revise the terms of the Plan, subject to any applicable regulatory approval, provided that no such amendment or revisions shall alter the terms of any options theretofore granted under the Plan.

### ***Outstanding Stock Options Available for Issuance***

The following table summarizes, as of May 9, 2013, the number of stock options that have been exercised under the Plan since its inception, the number of stock options outstanding as of May 9, 2013, and the number of stock options remaining available for grant as of May 9, 2013.

<b>Stock Options</b>	<b>Number</b>	<b>Percentage of Currently Outstanding Common Shares</b>
Stock options exercised, expired or cancelled since inception	2,609,035	3.6%
Stock options outstanding	2,125,778	3.0%
Stock options available for grant	5,027,014	7.0%

### ***Resolution for Approval of the Plan***

The Board recommends that the shareholders vote FOR the following resolution ratifying, confirming and approving the Plan.

#### **“RESOLVED THAT:**

1. the stock option plan of the Corporation (the “**Plan**”), as amended, be and the same is hereby ratified, confirmed and approved, subject to such changes as may be required to be made in order to comply with the requirements of the TSX Venture Exchange;

2. all options outstanding under the Corporation's Plan or any previous form of stock option plan shall remain valid and outstanding and be governed by the terms of the applicable previous form of stock option plan as it existed when they were granted;
3. notwithstanding the approval of the shareholders of the Corporation as herein provided the Board of Directors of the Corporation, may, in its sole discretion, at any time suspend or terminate the Plan or revoke this resolution before it is acted upon, without further approval of the shareholders of the Corporation; and
4. any one director or officer of the Corporation be and is hereby authorized and directed, for and on behalf of the Corporation, to execute and deliver or file such documents and instruments and to do all such other acts and things as are required or as such director or officer, in such director's or officer's sole discretion, may deem necessary to give full effect to or carry out the provisions of the above resolution."

**Unless such authority is withheld, the persons named in the enclosed instrument of proxy intend to vote for the ratification, confirmation and approval of the Plan.**

#### **OTHER ITEMS OF BUSINESS**

Management is not aware of any other matters which are to come before the Meeting other than the matters referred to in the Notice of Meeting. However, if any matters other than those referred to herein should be presented at the Meeting, the persons named in the enclosed proxy are authorized to vote the shares represented by the proxy in accordance with their best judgement.

#### **ADDITIONAL INFORMATION**

Financial information for the Corporation is provided in the Corporation's comparative annual financial statements and management's discussion and analysis for the most recently completed financial year. This information and additional information relating to the Corporation can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the Corporation's website at [www.titanmedicalinc.com](http://www.titanmedicalinc.com).

Copies of the above and other disclosure documents of the Corporation may also be obtained from the Secretary of the Corporation upon request.

#### **DIRECTORS' APPROVAL**

The contents and the distribution of this Circular have been approved by the Board of Directors.

**DATED** the 16<sup>th</sup> day of May, 2013.

*(signed) John T. Hargrove*

**John T. Hargrove**  
Chairman and interim Chief Executive Officer  
Titan Medical Inc.

## **SCHEDULE “A”**

### **TITAN MEDICAL INC. (the “Corporation”)**

#### **CHARTER OF THE AUDIT COMMITTEE (the “Charter”)**

##### **1. GENERAL**

The Board of Directors (the “**Board**”) of Titan Medical Inc. has established an Audit Committee (the “**Committee**”) to assist the Board in fulfilling its oversight responsibilities regarding:

- (a) the integrity of the Corporation’s financial statements;
- (b) the internal control systems of the Corporation;
- (c) the external audit process and assessing the independence of the auditors of the Corporation;
- (d) the internal audit and assurance process;
- (e) risk management;
- (f) investment opportunities and the raising of funds by the Corporation;
- (g) the Corporation’s compliance with legal and regulatory requirements, and
- (h) any additional duties set out in this Charter or otherwise delegated to the Committee by the Board.

##### **2. MEMBERS**

The Board will in each year appoint a minimum of three (3) directors as members of the Committee. A majority of the Committee shall be composed of non-management directors. In addition, the Committee will have an appropriate representation of independent directors, as required by law, and all recognition orders and exemption orders issued in respect of the Corporation by applicable securities regulatory authorities. All members of the Committee shall be financially literate or shall become financially literate within a reasonable time of his or her appointment. While the Board shall determine the definition of and criteria for financial literacy, this shall, at a minimum, include the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements.

The Chief Executive Officer (“**CEO**”) of the Corporation and, to the extent the Chair of the Board is not otherwise a member of the Committee, the Chair, and all other directors who are not members of the Committee may be invited to attend all meetings of the Committee in an ex officio capacity and shall not vote. The Chief Financial Officer of the Corporation shall attend each meeting of the Committee except for the in camera portion of the meeting.

##### **3. AUDIT COMMITTEE RESPONSIBILITIES**

- (a) The Audit Committee shall:
  - (i) recommend to the Board the external auditor to be nominated for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Corporation;
  - (ii) recommend to the Board the compensation of the external auditor;

- (iii) oversee the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation;
  - (iv) pre-approve all non-audit services to be provided to the Corporation or its subsidiary entities by the Corporation's external auditor, which pre-approval requirement need not be satisfied where: the non-audit services are expected to constitute not more than 5% of the total fees paid; the Corporation did not recognize the services as non-audit services at the time of engagement; and the services are promptly brought to the attention of the audit committee;
  - (v) review the Corporation's financial statements, MD&A and annual and press releases announcing or disclosing financial information before the Corporation publicly discloses this information;
  - (vi) be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to in (v.) and must periodically assess the adequacy of those procedures;
  - (vii) establish procedures for receipt, retention and treatment of complaints related to accounting and auditing matters;
  - (viii) establish procedures for the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting/auditing matters; and
  - (ix) review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Corporation.
- (b) The Audit Committee may delegate the pre-approval functions in 3 (a) (iv) to one or more independent members so long as the pre-approval of non-audit services by such member is presented to the audit committee at its first scheduled meeting following such pre-approval.
  - (c) The Audit Committee shall satisfy the pre-approval requirement in 3 (a) (iv) if:
    - (i) the pre-approval policies and procedures are detailed as to the particular service;
    - (ii) the audit committee is informed of each non-audit service; and
    - (iii) the procedures do not include delegation of the audit committee's responsibilities to management.

#### **4. EXPERTS AND ADVISORS**

The Audit Committee shall have authority to:

- (a) engage independent counsel as it determines necessary to carry out its duties;
- (b) set and pay compensation for any legal counsel employed by the audit committee; and
- (c) communicate directly with the internal and external auditors.

**5. CHAIR**

The Board will in each year appoint the Chair of the Committee. The Chair shall have accounting or related financial expertise. In the Chair's absence, or if the position is vacant, the Committee may select another member as Chair. The Chair will have the right to exercise all powers of the Committee between meetings but will attempt to involve all other members as appropriate prior to the exercise of any powers and will, in any event, advise all other members of any decisions made or powers exercised.

**6. MEETINGS**

The Committee shall meet at the request of its Chair, but in any event it will meet at least four times a year. Notices calling meetings shall be sent to all Committee members, to the CEO of the Corporation, to the Chair of the Board and to all other directors. The external auditor or any member of the Committee may call a meeting of the Committee. Meetings may be attended by telephone.

**7. QUORUM**

A majority of members of the Committee, present in person, by teleconferencing, or by videoconferencing will constitute a quorum.

**8. REMOVAL AND VACANCY**

A member may resign from the Committee, and may be removed and replaced at any time by the Board, and will automatically cease to be a member as soon as the member ceases to be a director. The Board will fill vacancies in the Committee by appointment from among the directors of the Board in accordance with Section 2 of this Charter. Subject to quorum requirements, if a vacancy exists on the Committee, the remaining members will exercise all its powers.

**9. DUTY OF CARE**

In the discharge of their duties under this Charter, each member of the Committee shall be obliged to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. However, nothing in this Charter is intended, or may be construed, to impose on any member of the Committee a higher standard of care, diligence or skill than the standard to which a member of the Board is subject.

**10. AMENDMENT**

This Audit Committee Charter shall be reviewed and may be amended from time to time by the Board.