

TITAN MEDICAL INC.
Unaudited Condensed Interim Financial Statements
Three and Six Months Ended June 30, 2013 and 2012

TITAN MEDICAL INC.
Unaudited Condensed Interim Balance Sheets
As at June 30, 2013 and December 31, 2012

| | June 30, 2013 | December 31, 2012 |
|--|---------------------------|------------------------------|
| ASSETS | | |
| CURRENT | | |
| Cash and cash equivalents | \$6,162,590 | \$4,617,016 |
| Amounts receivable | 47,967 | 70,188 |
| Deposits (Note 7) | 427,248 | 294,161 |
| Prepaid expenses | <u>31,262</u> | <u>202,848</u> |
| Total Current Assets | 6,669,067 | 5,184,213 |
| Furniture and Equipment (Note 3) | 282,878 | 335,398 |
| Patent Rights (Note 4) | <u>240,012</u> | <u>201,520</u> |
| | <u>\$7,191,957</u> | <u>\$5,721,131</u> |
| LIABILITIES | | |
| CURRENT | | |
| Accounts payable and accrued liabilities | <u>\$1,406,766</u> | <u>\$1,098,658</u> |
| SHAREHOLDERS' EQUITY | | |
| Share Capital (Note 5(a)) | 31,779,223 | 26,682,137 |
| Contributed Surplus | 1,902,297 | 1,978,154 |
| Warrants (Note 5 (b)) | 8,532,233 | 7,593,119 |
| Deficit | <u>(36,428,562)</u> | <u>(31,630,937)</u> |
| Total Equity | <u>5,785,191</u> | <u>4,622,473</u> |
| TOTAL LIABILITIES & EQUITY | <u>\$7,191,957</u> | <u>\$5,721,131</u> |

Commitments (Note 7)
See accompanying notes to financial statements

Approved on behalf of the Board:

John T. Hargrove
Director

Martin Bernholtz
Director

TITAN MEDICAL INC.
Unaudited Condensed Interim Statements of Shareholders' Equity and Deficit
For the Periods ended June 30, 2012 and 2013

| | Share Capital Number | Share Capital Amount | Contributed Surplus | Warrants | Deficit | Total Equity |
|---|--------------------------|-----------------------------|----------------------------|----------------------------|-------------------------------|----------------------------|
| Balance - December 31, 2011 | 62,315,337 | \$ 24,492,101 | \$ 1,747,497 | \$ 6,977,225 | \$ (23,873,693) | \$ 9,343,130 |
| Issued pursuant to agency agreement | 1,986,755 | 3,000,000 | | | | 3,000,000 |
| Share issue expense | | (444,968) | | | | (444,968) |
| Warrants issued during the period | | (615,894) | | 615,894 | | - |
| Options exercised | 185,300 | 116,290 | (48,947) | | | 67,343 |
| Stock based compensation expense | | | 248,774 | | | 248,774 |
| Net and comprehensive loss for the period | | | | | (4,780,764) | (4,780,764) |
| Balance – June 30, 2012 | <u>64,487,392</u> | <u>\$ 26,547,529</u> | <u>\$ 1,947,324</u> | <u>\$ 7,593,119</u> | <u>\$ (28,654,457)</u> | <u>\$ 7,433,515</u> |
| Balance - December 31, 2012 | 64,744,892 | \$ 26,682,137 | \$ 1,978,154 | \$ 7,593,119 | \$ (31,630,937) | \$ 4,622,473 |
| Issued pursuant to agency agreement | 6,260,763 | 6,573,801 | | | | 6,573,801 |
| Share issue expense | | (806,360) | | | | (806,360) |
| Warrants issued during the period | | (939,114) | | 939,114 | | - |
| Options exercised | 522,265 | 268,759 | (118,366) | | | 150,393 |
| Stock based compensation expense | | | 42,509 | | | 42,509 |
| Net and comprehensive loss for the period | | | | | (4,797,625) | (4,797,625) |
| Balance – June 30, 2013 | <u>71,527,920</u> | <u>\$ 31,779,223</u> | <u>\$ 1,902,297</u> | <u>\$ 8,532,233</u> | <u>\$ (36,428,562)</u> | <u>\$ 5,785,191</u> |

See accompanying notes to financial statements.

TITAN MEDICAL INC.
Unaudited Condensed Interim Statements of Operations
For the Three and Six Months ended June 30, 2013 and 2012

| | Three Months Ended June 30, 2013 | Six Months Ended June 30, 2013 | Three Months Ended June 30, 2012 | Six Months Ended June 30, 2012 |
|--|---|---|---|---|
| REVENUE | \$ _____ - | \$ _____ - | \$ _____ - | \$ _____ - |
| EXPENSES | | | | |
| Amortization | 31,983 | 45,604 | 33,884 | 66,430 |
| Consulting fees | 178,731 | 244,725 | 70,676 | 123,415 |
| Stock based compensation (Note 5(b)) | - | 42,509 | 171,796 | 248,774 |
| Insurance | 10,885 | 21,770 | 10,887 | 21,507 |
| Management salaries and fees | 275,996 | 892,378 | 331,372 | 858,768 |
| Marketing and investor relations | 49,187 | 68,025 | 38,491 | 92,227 |
| Office and general | 76,942 | 178,659 | 58,524 | 230,887 |
| Professional fees | 144,555 | 196,055 | 110,529 | 208,887 |
| Rent | 32,172 | 67,460 | 57,121 | 92,460 |
| Research and development | 1,500,541 | 2,995,036 | 563,176 | 2,753,249 |
| Travel | 56,817 | 82,715 | 31,070 | 133,348 |
| | <u>2,357,809</u> | <u>4,834,936</u> | <u>1,477,526</u> | <u>4,829,952</u> |
| OTHER INCOME | | | | |
| Interest | 22,911 | 37,311 | 24,296 | 49,188 |
| NET AND COMPREHENSIVE LOSS FOR THE PERIOD | <u>\$(2,334,898)</u> | <u>\$(4,797,625)</u> | <u>\$(1,453,230)</u> | <u>\$(4,780,764)</u> |
| BASIC AND DILUTED LOSS PER SHARE | <u>\$(0.03)</u> | <u>\$(0.07)</u> | <u>\$(0.02)</u> | <u>\$(0.08)</u> |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES, Basic and Diluted | <u>71,481,306</u> | <u>68,766,873</u> | <u>64,405,887</u> | <u>63,548,221</u> |

See accompanying notes to financial statements

TITAN MEDICAL INC.
Unaudited Condensed Interim Statements of Cash Flows
For the Three and Six Months ended June 30, 2013 and 2012

| | Three Months Ended June 30, 2013 | Six Months Ended June 30, 2013 | Three Months Ended June 30, 2012 | Six Months Ended June 30, 2012 |
|--|---|---|---|---|
| OPERATING ACTIVITIES | | | | |
| Net loss for the period | \$(2,334,898) | \$(4,797,625) | \$(1,453,230) | \$(4,780,764) |
| Items not involving cash: | | | | |
| Amortization | 31,983 | 45,604 | 33,884 | 66,430 |
| Stock based compensation | - | 42,509 | 171,796 | 248,774 |
| Changes in non-cash working capital items | | | | |
| Amounts receivable, prepaid expenses and deposits | (110,437) | 60,720 | 557,003 | 688,011 |
| Accounts payable and accrued liabilities | (46,996) | 308,108 | (208,716) | (1,344,078) |
| Cash used in operating activities | (2,460,348) | (4,340,684) | (899,263) | (5,121,627) |
| FINANCING ACTIVITIES | | | | |
| Net proceeds from issuance of common shares and warrants | 88,532 | 5,917,834 | 36,143 | 2,622,375 |
| Cash provided by financing activities | 88,532 | 5,917,834 | 36,143 | 2,622,375 |
| INVESTING ACTIVITIES | | | | |
| Purchase of Furniture and Equipment | (1,671) | (1,671) | (2,049) | (78,580) |
| Costs of Patents | (26,956) | (29,905) | (11,067) | (14,124) |
| Cash used in investing activities | (28,627) | (31,576) | (13,116) | (92,704) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (2,400,443) | 1,545,574 | (876,236) | (2,591,956) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 8,563,033 | 4,617,016 | 8,023,102 | 9,738,822 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$6,162,590 | 6,162,590 | \$7,146,866 | \$7,146,866 |
| CASH AND CASH EQUIVALENTS COMPRISE: | | | | |
| Term Deposits | \$6,032,078 | \$6,032,078 | \$7,024,601 | \$7,024,601 |
| Cash | 130,512 | 130,512 | 122,265 | 122,265 |
| | \$6,162,590 | \$6,162,590 | \$7,146,866 | \$7,146,866 |

See accompanying notes to financial statements

1. **DESCRIPTION OF BUSINESS**

Basis of Preparation:

(a) Statement of Compliance

These condensed interim financial statements for the three and six months ending June 30, 2013 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”).

These condensed interim financial statements should be read in conjunction with the Company’s 2012 annual financial statements which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The condensed interim financial statements have been prepared using accounting policies consistent with those used in the Company’s 2012 annual financial statements as well as any amendments, revisions and new IFRS, which have been issued subsequently and are appropriate to the Company.

Changes in Accounting Policy and Disclosure:

None of these new standards, interpretations and amendments, effective for the first time from January 1, 2013 have had a material effect on the financial statements.

IFRS 7 Transfers of Financial Assets

IFRS 10 Consolidated financial statements, to replace consolidation requirements in IAS 27 and SIC-12

IFRS 11 Joint arrangements, to replace IAS 31 and SIC-13

IFRS 12 Disclosure of Interests in other Entities, to replace disclosure requirements in IAS 27, IAS 28 and IAS 31

IFRS 13 Fair Value Measurement

IAS 1 Presentation of Financial Statements, amendments regarding Presentation of Items of Other Comprehensive Income

IAS 19 Employee benefits

IAS 27 Separate Financial Statements

IAS 28 Investments in Associates and Joint Ventures

(b) Basis of Measurement

These condensed interim financial statements have been prepared on the historical cost basis.

(c) Functional and Presentation Currency

These condensed interim financial statements are presented in Canadian dollars, which is the Company’s functional currency.

The condensed interim financial statements were authorized for issue by the Board of Directors on August 6, 2013.

1. **DESCRIPTION OF BUSINESS** (continued)

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 research and development stage to 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.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Use of Estimates and Judgements

The preparation of condensed interim financial statements in conformity with IAS 34, Interim Financial Reporting, 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 condensed interim 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.

The Black-Scholes model used by Titan to determine fair values of stock options was developed for use in estimating the fair value of the stock options and warrants. This model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate.

Standards, Amendments and Interpretations Not Yet Effective

Following is a listing of amendments, revisions and new IFRSs, which has been issued and is effective for annual periods beginning after January 1, 2013. Management continues to assess the effect on the Company's future results and Financial Position as a result of this amendment.

IAS 32 Financial Instruments presentation effective January 1, 2014

IFRS 9 Financial Instruments, to replace IAS 39 and IFRIC 9, effective for annual periods beginning on or after January 1, 2015

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Six Months Ended June 30, 2013

3. FURNITURE AND EQUIPMENT

| | Computer Equipment | Furniture and Fixtures | Leasehold Improvements | Total |
|---|-------------------------------|-----------------------------------|-----------------------------------|------------------|
| Cost | | | | |
| Balance at December 31, 2012 | \$68,123 | \$284,208 | \$183,579 | \$535,910 |
| Additions | <u>1,671</u> | <u>0</u> | <u>0</u> | <u>1,671</u> |
| Balance at June 30, 2013 | <u>\$69,794</u> | <u>\$284,208</u> | <u>\$183,579</u> | <u>\$537,581</u> |
| Amortization & Impairment Losses | | | | |
| Balance at December 31, 2012 | \$43,628 | \$108,174 | \$48,710 | \$200,512 |
| Amortization for the period | 10,541 | 32,564 | 11,086 | 54,191 |
| Impairment loss | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Balance at June 30, 2013 | <u>\$54,169</u> | <u>\$140,738</u> | <u>\$59,796</u> | <u>\$254,703</u> |
| Net Book Value | | | | |
| At December 31, 2012 | <u>\$24,495</u> | <u>\$176,034</u> | <u>\$134,869</u> | <u>\$335,398</u> |
| At June 30, 2013 | <u>\$15,625</u> | <u>\$143,470</u> | <u>\$123,783</u> | <u>\$282,878</u> |

4. PATENT RIGHTS

| | |
|---|------------------|
| Cost | |
| Balance at December 31, 2012 | \$349,135 |
| Additions | <u>29,905</u> |
| Balance at June 30, 2013 | <u>\$379,040</u> |
| Amortization & Impairment Losses | |
| Balance at December 31, 2012 | \$147,615 |
| Amortization and other adjustments for the period | (8,587) |
| Impairment loss | <u>0</u> |
| Balance at June 30, 2013 | <u>\$139,028</u> |
| Net Book Value | |
| At December 31, 2012 | <u>\$201,520</u> |
| At June 30, 2013 | <u>\$240,012</u> |

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Six Months Ended June 30, 2013

5. SHARE CAPITAL

- a) **Authorized:** unlimited number of common shares, no par value
Issued: 71,527,920 (December 31, 2012: 64,744,892)

On March 13, 2013 Titan completed an offering of securities pursuant to an agency agreement. The offer consisted of 6,260,763 units at \$1.05 for gross proceeds of \$6,573,801. (\$5,767,441 net of closing costs including 7% cash commission of \$460,166 paid in accordance with the terms of the agency agreement). Each unit comprises one common share of Titan and one warrant. Each warrant entitles its holder to purchase one additional common share of Titan for \$1.25 and will expire March 13, 2018. The warrants were valued at \$939,114 using a proportionate fair value method and the balance of \$5,634,687 was allocated to common shares.

Pursuant to the agency agreement, in addition to the cash commission paid to the Agent, compensation warrants (“Broker Warrants”) were issued to purchase 438,253 common shares at a price of \$1.05 per share for a period of 24 months following the closing date. As at June 30, 2013 none of these Broker Warrants have been exercised by the Agent.

On March 8, 2012 Titan completed an offering of securities pursuant to an agency agreement. The offer consisted of 1,986,755 units at \$1.51 for gross proceeds of \$3,000,000 (\$2,555,032 net of closing costs including 7% cash commission of \$210,000 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 \$1.77 and will expire March 14, 2017. The warrants were valued at \$615,894 using a proportionate fair value method and the balance of \$2,384,106 was allocated to common shares.

Pursuant to the agency agreement, in addition to the cash commission paid to the Agent, compensation warrants (“Broker Warrants”) were issued to purchase 139,073 common shares at a price of \$1.77 per share for a period of 24 months following the closing date. As at June 30, 2013 none of these Broker Warrants have been exercised by the Agent.

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 advisers. At, June 30, 2013, 5,027,014 common shares (December 31, 2012: 3,872,037) 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 June 30, 2013 and June 30, 2012 and changes during the periods ended on those dates is presented in the following table:

| | Six Months Ended June 30, 2013 | | Six Months Ended June 30, 2012 | |
|--------------------|---|--|---|--|
| | Number of stock options | Weighted-average exercise price | Number of stock options | Weighted-average exercise price |
| Balance, beginning | 2,602,452 | \$0.55 | 2,882,404 | \$ 0.47 |
| Granted | 45,591 | \$0.83 | 237,848 | 1.47 |
| Exercised | (522,265) | \$0.29 | (185,300) | 0.36 |
| Expired | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Balance, ending | <u>2,125,778</u> | <u>\$0.62</u> | <u>2,934,952</u> | <u>\$ 0.56</u> |

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Six Months Ended June 30, 2013

5. **SHARE CAPITAL** (continued)

The weighted-average remaining contractual life and weighted-average exercise price of options outstanding and of options exercisable as at June 30, 2013 are as follows:

| Exercise price | Options Outstanding | | | Options Exercisable | |
|----------------|---------------------|---------------------------------|---|---------------------|---------------------------------|
| | Number outstanding | Weighted-average exercise price | Weighted-average remaining contractual life (years) | Number exercisable | Weighted-average exercise price |
| \$0.24 | 346,754 | \$0.24 | 1.1 | 346,754 | \$0.24 |
| \$0.30 | 675,000 | \$0.30 | 1.1 | 675,000 | \$0.30 |
| \$0.31 | 246,740 | \$0.31 | 0.1 | 246,740 | \$0.31 |
| \$0.32 | 151,000 | \$0.32 | 2.0 | 151,000 | \$0.32 |
| \$0.64 | 55,000 | \$0.64 | 2.1 | 55,000 | \$0.64 |
| \$0.68 | 50,000 | \$0.68 | 2.2 | 50,000 | \$0.68 |
| \$0.83 | 45,591 | \$0.83 | 4.8 | 45,591 | \$0.83 |
| \$1.27 | 160,000 | \$1.27 | 2.6 | 160,000 | \$1.27 |
| \$1.39 | 47,532 | \$1.39 | 3.9 | 47,532 | \$1.39 |
| \$1.46 | 25,000 | \$1.46 | 3.0 | 25,000 | \$1.46 |
| \$1.49 | 190,316 | \$1.49 | 3.6 | 190,316 | \$1.49 |
| \$1.66 | 32,845 | \$1.66 | 3.2 | 32,845 | \$1.66 |
| \$1.67 | <u>100,000</u> | <u>\$1.67</u> | <u>2.8</u> | <u>100,000</u> | <u>\$1.67</u> |
| | <u>2,125,778</u> | <u>\$0.62</u> | <u>2.3</u> | <u>2,125,778</u> | <u>\$0.62</u> |

Options are granted to Directors, officers, employees and consultants at various times. Options are to be settled by physical delivery of shares.

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.

| Grant date/Person entitled | Number of Options | Vesting Conditions | Contractual life of Options |
|---|-------------------|--------------------|-----------------------------|
| March 21, 2013, option grants to Director and Officer | <u>49,591</u> | Immediate | 5 years |

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Six Months Ended June 30, 2013

5. **SHARE CAPITAL** (continued)

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 | |
|--|--|---------|
| | 2013 | 2012 |
| Fair Value at grant date | \$0.66 | \$1.26 |
| Share price at grant date | \$0.83 | \$1.49 |
| Exercise price | \$0.83 | \$1.49 |
| Expected Volatility | 110% | 126% |
| Option Life | 5 years | 5 years |
| Expected dividends | nil | nil |
| Risk-free interest rate (based on government bonds) | 1.34% | 1.41% |

The following is a summary of outstanding warrants as at June 30, 2013 and June 30, 2012 and changes during the periods then ended.

| | Number of Warrants | Amount | Number of Warrants | Amount |
|---|-------------------------------|--------------------|-------------------------------|--------------------|
| | June 30, 2013 | | June 30, 2012 | |
| Opening Balance | 17,444,255 | \$7,593,119 | 15,457,500 | \$6,977,225 |
| Issued March 14, 2012 Exercise Price of \$1.77 Expires March 14, 2017 | - | - | 1,986,755 | 615,894 |
| Issued March 13, 2013 Exercise Price of \$1.25 Expires March 13, 2018 | <u>6,260,763</u> | <u>939,114</u> | <u>-</u> | <u>-</u> |
| Ending Balance | <u>23,705,018</u> | <u>\$8,532,233</u> | <u>17,444,255</u> | <u>\$7,593,119</u> |

In addition to the warrants listed above, the Company has issued and outstanding 918,926 Broker Warrants from previous financings.

As at June 30, 2013 none of these Broker Warrants have been exercised by the Agent.

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Six Months Ended June 30, 2013

6. INCOME TAXES

Losses carried forward

(a) The Company has non-capital losses of approximately \$20,721,839 available to reduce future income taxes. The non-capital losses expire approximately as follows:

| | |
|------|---------------------|
| 2023 | \$ 15,369 |
| 2024 | 272,037 |
| 2025 | 230,224 |
| 2026 | 245,530 |
| 2027 | 114 |
| 2028 | 673,910 |
| 2029 | 198,583 |
| 2030 | 2,131,030 |
| 2031 | 10,023,074 |
| 2032 | <u>6,931,968</u> |
| | <u>\$20,721,839</u> |

(b) The Company has accumulated Qualifying Research and Development expenses of \$10,039,811 (December 31, 2012 \$8,880,330) as a result of ongoing research and development. These expenditures may be carried forward indefinitely and used to reduce taxable income in future years.

7. COMMITMENTS

Effective July 15, 2011, the Company entered into a lease 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 \$7,463 and for the remaining 2.5 years is \$8,210, plus HST.

Effective February 1, 2012, the Company has 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 1, 2012, 3,957 square feet of this additional space has been sublet for a five year term.

Effective March 1, 2012, the Company has relocated its corporate office within Toronto. The new space occupies 1,000 square feet and is on a month to month basis at an annual rental of \$39,000 per year.

As part of its program of research and development around its robotic surgical system, the Company has outsourced certain aspects of the design and development to a U.S. based technology and development company. As at June 30, 2013, the Company has issued and outstanding individual purchase orders to this technology and development company which total Cdn. \$831,395 (U.S. \$790,450). The Company also has on deposit with this same U.S. supplier Cdn. \$412,000 to be applied against future invoices.

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Six Months Ended June 30, 2013

7. **COMMITMENTS** (continued)

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 \$375,000. 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 robotic surgical system. These agreements require Titan to make minimum periodic payments for 2014 and beyond.

| | |
|------|-----------|
| 2014 | \$ 77,500 |
| 2015 | \$ 80,000 |
| 2016 | \$ 80,000 |
| 2017 | \$ 80,000 |
| 2018 | \$ 5,000 |

8. **RELATED PARTY TRANSACTIONS**

During the period ended June 30, 2013, 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.

Officers and Directors of the Company control approximately 8.88% of the Company.

| | June 30, 2013 | | December 31, 2012 | |
|------------------------------|----------------------|-------------|--------------------------|--------------|
| | BASE | % | BASE | % |
| John Barker | 74,000 | 0.10 | 74,000 | 0.11 |
| Martin Bernholtz | 1,291,500 | 1.81 | 1,291,500 | 2.00 |
| John Hargrove | 6,200 | 0.01 | 6,200 | 0.01 |
| Craig Leon | - | - | 4,277,711 | 6.61 |
| Stephen Randall | 25,600 | 0.04 | 25,600 | 0.04 |
| Reiza Rayman | 4,923,677 | 6.88 | 4,923,677 | 7.60 |
| John Valvo | <u>25,000</u> | <u>0.04</u> | <u>25,000</u> | <u>0.04</u> |
| | | | | |
| TOTAL | <u>6,345,977</u> | <u>8.88</u> | <u>10,623,688</u> | <u>16.41</u> |
| | | | | |
| Common Shares Outstanding | <u>71,527,920</u> | <u>100%</u> | <u>64,744,892</u> | <u>100%</u> |

9. **MANAGEMENT CHANGES**

Effective March 19, 2013 the then current CEO of the Company stepped down as Chairman and CEO. Included in Accounts payable and accrued liabilities is the amount of \$204,540 with regards to his separation package.

10. **SEGMENTED REPORTING**

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

11. **EVENTS AFTER THE REPORTING DATE**

On July 23, 2013, 50,000 options were exercised for proceeds of \$15,750 and the issuance of 50,000 common shares

On July 24, 2013, 146,740 options were exercised for proceeds of \$45,489 and the issuance of 146,740 common shares

On August 2, 2013 the Company granted a total of 1,023,553 incentive stock options to Directors, Officers and Employees of the Company, pursuant to its incentive stock option plan. These stock options are exercisable until August 2, 2018 at a price of \$0.56. Stock options granted to Independent Directors vest immediately while stock options to Officers and Employees vest over a period of twelve months.