

TITAN MEDICAL INC.
Unaudited Condensed Interim Financial Statements
Three and Six Months Ended June 30, 2014 and 2013

(IN UNITED STATES DOLLARS)

TITAN MEDICAL INC.
Unaudited Condensed Interim Balance Sheets
As at June 30, 2014 and December 31, 2013
(In U.S. Dollars)

	June 30, 2014	December 31, 2013
ASSETS		
CURRENT		
Cash and cash equivalents	\$39,560,789	\$2,446,084
Amounts receivable	212,270	38,172
Deposits (Note 8)	900,000	397,818
Prepaid expenses	<u>58,081</u>	<u>61,092</u>
Total Current Assets	40,731,140	2,943,166
Furniture and Equipment (Note 3)	22,299	27,823
Patent Rights (Note 4)	<u>286,801</u>	<u>236,182</u>
	<u>\$41,040,240</u>	<u>\$3,207,171</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$2,264,291	\$1,186,588
Warrants liability (Note 2(d) and 6)	<u>10,813,691</u>	<u>-</u>
	<u>13,077,982</u>	<u>1,186,588</u>
SHAREHOLDERS' EQUITY		
Share Capital (Note 5(a))	67,714,367	30,282,941
Contributed Surplus	2,643,648	2,240,037
Warrants (Note 5 (b))	6,521,277	8,022,005
Deficit	<u>(48,917,034)</u>	<u>(38,524,400)</u>
Total Equity	<u>27,962,258</u>	<u>2,020,583</u>
TOTAL LIABILITIES & EQUITY	<u>\$41,040,240</u>	<u>\$3,207,171</u>

Commitments (Note 8)
See accompanying notes to financial statements

Approved on behalf of the Board:

John T. Hargrove
Chairman and CEO

Martin Bernholtz
Director

TITAN MEDICAL INC.
Unaudited Condensed Interim Statements of Shareholders' Equity and Deficit
For the Periods ended June 30, 2013 and 2014
(In U.S. Dollars)

	Share Capital Number	Share Capital Amount	Contributed Surplus	Warrants	Deficit	Total Equity
Balance - December 31, 2012	64,744,892	\$ 25,086,545	\$ 1,859,860	\$ 7,139,050	\$ (29,739,406)	\$ 4,346,049
Issued pursuant to agency agreement	6,260,763	6,180,688				6,180,688
Share issue expense		(758,140)				(758,140)
Warrants issued during the period		(882,955)		882,955		-
Options exercised during the period	522,265	252,687	(111,287)			141,400
Stock based compensation vested			39,967			39,967
Net and Comprehensive loss for the period					(4,510,727)	(4,510,727)
Balance – June 30, 2013	<u>71,527,920</u>	<u>\$ 29,878,825</u>	<u>\$ 1,788,540</u>	<u>\$ 8,022,005</u>	<u>\$ (34,250,133)</u>	<u>\$ 5,439,237</u>
Balance - December 31, 2013	72,165,434	\$ 30,282,941	\$ 2,240,037	\$ 8,022,005	\$ (38,524,400)	\$ 2,020,583
Issued pursuant to agency agreements	21,345,689	34,821,603				34,821,603
Share issue expense		(2,604,279)				(2,604,279)
Warrant liability issued during the period		(4,899,203)				(4,899,203)
Warrants exercised during the period	5,627,273	10,012,949		(1,500,728)		8,512,221
Options exercised during the period	155,000	100,356	(47,593)			52,763
Stock based compensation vested			451,204			451,204
Net and Comprehensive loss for the period					(10,392,634)	(10,392,634)
Balance – June 30, 2014	<u>99,293,396</u>	<u>\$ 67,714,367</u>	<u>\$ 2,643,648</u>	<u>\$ 6,521,277</u>	<u>\$ (48,917,034)</u>	<u>\$ 27,962,258</u>

See accompanying notes to financial statements.

TITAN MEDICAL INC.
Unaudited Condensed Interim Statements of Net and Comprehensive Loss
For the Three and Six Months ended June 30, 2014 and 2013
(In U.S. Dollars)

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
REVENUE	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -
EXPENSES				
Amortization	2,937	11,956	30,070	42,877
Consulting fees	87,077	127,902	168,043	230,090
Stock based compensation (Note 5(b))	161,881	379,355	-	39,967
Insurance	10,216	20,431	10,234	20,468
Management salaries and fees	319,922	540,256	259,491	839,014
Marketing and investor relations	53,528	75,027	46,246	63,957
Office and general	48,914	119,299	49,185	134,339
Professional fees	137,852	236,054	135,911	184,331
Rent	43,310	89,545	30,248	63,426
Research and development	2,718,579	4,063,226	1,410,809	2,815,933
Travel	46,045	84,894	53,419	77,769
Foreign exchange (gain) loss	(983,491)	(930,765)	23,156	33,636
	2,646,770	4,817,180	2,216,812	4,545,807
FINANCE INCOME (LOSS)				
Interest	102,624	122,414	21,541	35,080
Loss on change in fair value of warrants (Note 2(d) and 6)	(4,237,546)	(5,697,868)	-	-
	(4,134,922)	(5,575,454)	21,541	35,080
NET AND COMPREHENSIVE LOSS FOR THE PERIOD	\$6,781,692	\$10,392,634	\$2,195,271	\$4,510,727
BASIC AND DILUTED LOSS PER SHARE	\$0.07	\$0.12	\$0.03	\$0.07
WEIGHTED AVERAGE NUMBER OF COMMON SHARES, Basic and Diluted	95,781,655	86,306,243	71,481,306	68,766,873

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, 2014 and 2013
(In U.S. Dollars)

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
OPERATING ACTIVITIES				
Net loss for the period	\$(6,781,692)	\$(10,392,634)	\$(2,195,271)	\$(4,510,727)
Items not involving cash:				
Amortization	2,937	11,956	30,070	42,877
Stock based compensation	294,783	451,203	-	39,967
Warrant liability – fair value adjustment	4,237,546	5,697,868	-	-
Changes in non-cash working capital items:				
Amounts receivable, prepaid expenses and deposits	(633,458)	(673,269)	(103,833)	57,089
Accounts payable and accrued liabilities	1,096,924	1,077,703	(44,186)	289,683
Cash used in operating activities	(1,782,960)	(3,827,173)	(2,313,220)	(4,081,111)
FINANCING ACTIVITIES				
Net proceeds from issuance of common shares and warrants	25,802,096	40,998,929	83,238	5,563,948
Cash provided by financing activities	25,802,096	40,998,929	83,238	5,563,948
INVESTING ACTIVITIES				
Proceeds from disposal/(purchase) of furniture and equipment	299	1,906	(1,571)	(1,571)
Costs of Patents	(43,112)	(58,957)	(25,344)	(28,117)
Cash used in investing activities	(42,813)	(57,051)	(26,915)	(29,688)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	23,976,323	37,114,705	(2,256,897)	1,453,149
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	15,584,466	2,446,084	8,050,964	4,340,918
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$39,560,789	\$39,560,789	\$5,794,067	\$5,794,067
CASH AND CASH EQUIVALENTS COMPRISE:				
Cash	\$1,073,646	\$1,073,646	\$122,707	\$122,707
Term Deposits	38,487,143	38,487,143	5,671,360	5,671,360
	\$39,560,789	\$39,560,789	\$5,794,067	\$5,794,067

See accompanying notes to financial statements

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three and Six Months Ended June 30, 2014
(In U.S. Dollars)

1. DESCRIPTION OF BUSINESS

Nature of Operations:

Titan Medical Inc. (the “Company” or “Titan”) 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.

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

Basis of Preparation:

(a) Statement of Compliance

These condensed interim financial statements for the three and six months ending June 30, 2014 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 2013 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 2013 annual financial statements as well as any amendments, revisions and new IFRS, which have been issued subsequently and are appropriate to the Company.

The condensed interim financial statements were authorized for issue by the Board of Directors on August 13, 2014.

(b) Basis of Measurement

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

(c) Functional and Presentation Currency

These condensed interim financial statements are presented in United States dollars (“U.S.”), which is the Company’s functional and presentation currency.

Effective January 1, 2014, the Company changed its functional and presentation currency from the Canadian dollar to the U.S. dollar, applied on a prospective basis in accordance with IAS 21. This change reflects the continuing increase in the Company’s costs being incurred in U.S. dollars, a trend which is expected to continue in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three and Six Months Ended June 30, 2014
(In U.S. Dollars)

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

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.

(b) Fair Value

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

(c) Foreign Currency

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

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

(d) Warrant Liability

Effective January 1, 2014, the Company adopted, on a prospective basis, the U.S. dollar as its functional and presentation currency. In accordance with IAS 32, because the exercise prices of the warrants issued February 19, and April 23, 2014 are not a fixed amount as they were denominated in a currency (Canadian dollar) other than the Company's functional currency (U.S. dollar), the warrants were accounted for as a derivative financial liability. Each Warrant Liability is initially measured at fair value and subsequent changes in fair value recorded through Net and Comprehensive Loss for the period. The fair value of these warrants was determined initially using a comparable warrant quoted in an active market, adjusted for differences in the terms of the warrant. At June 30, 2014, the Warrant Liability was adjusted to fair value measured at the market price of the listed warrants.

(e) Fair Value Measurement

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

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

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

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

The fair value of our Warrant liability is initially based on level 2 (significant observable inputs) and at June 30, 2014 is based on level 1, quoted prices (unadjusted).

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three and Six Months Ended June 30, 2014
(In U.S. Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) 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, 2014. Management continues to assess the effect on the Company's future results and Financial Position as a result of this amendment.

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

3. FURNITURE AND EQUIPMENT

	Computer Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Cost				
Balance at December 31, 2013	\$64,117	\$266,742	\$172,601	\$503,460
Additions/(Disposals)	<u>(283)</u>	<u>(1,623)</u>	<u>0</u>	<u>(1,906)</u>
Balance at June 30, 2014	<u>\$63,834</u>	<u>\$265,119</u>	<u>\$172,601</u>	<u>\$501,554</u>
Amortization & Impairment Losses				
Balance at December 31, 2013	\$59,799	\$243,237	\$172,601	\$475,637
Amortization for the period	<u>3,618</u>	<u>0</u>	<u>0</u>	<u>3,618</u>
Balance at June 30, 2014	<u>\$63,417</u>	<u>\$243,237</u>	<u>\$172,601</u>	<u>\$479,255</u>
Net Book Value				
At December 31, 2013	<u>\$4,318</u>	<u>\$23,505</u>	<u>\$0</u>	<u>\$ 27,823</u>
At June 30, 2014	<u>\$ 417</u>	<u>\$21,882</u>	<u>\$0</u>	<u>\$ 22,299</u>

4. PATENT RIGHTS

Cost

Balance at December 31, 2013	\$377,646
Additions	<u>58,957</u>
Balance at June 30, 2014	<u>\$436,603</u>

Amortization & Impairment Losses

Balance at December 31, 2013	\$141,464
Amortization and other adjustments for the period	<u>8,338</u>
Balance at June 30, 2014	<u>\$149,802</u>

Net Book Value

At December 31, 2013	<u>\$236,182</u>
At June 30, 2014	<u>\$286,801</u>

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three and Six Months Ended June 30, 2014
(In U.S. Dollars)

5. SHARE CAPITAL

<i>a)</i>	<i>Authorized:</i>	unlimited number of common shares, no par value
	<i>Issued:</i>	99,293,396 (December 31, 2013: 72,165,434)

On April 23 2014 Titan completed an offering of securities pursuant to an agency agreement dated April 10, 2014 between the Company and Dundee Securities Ltd. (“the Agent”). The offering consisted of 10,611,469 units and full over-allotment of 1,591,720 units for a total of 12,203,189 units at a price of \$1.90 per unit for aggregate gross proceeds of \$23,232,936 (\$21,606,685 net of closing costs including 6% cash commission of \$1,362,426 paid in accordance with the terms of the agency agreement). Each unit comprised one common share of Titan and one warrant. Each warrant entitles its holder to purchase one additional common share of Titan for \$2.49 and will expire April 23, 2017. The warrants were valued at \$3,539,901 using a comparable warrant quoted in an active market, adjusted for differences in the terms of the warrant and the balance of \$19,693,035 was allocated to common shares.

Pursuant to the agency agreement, in addition to the cash commission paid to the Agent, broker warrants were issued to purchase 699,191 units. Each broker warrant entitles the holder thereof to acquire one unit of the Company at the price of \$1.90 for a period of 24 months following the closing date. Each unit consists of one common share and one warrant. Each warrant entitles the holder to acquire one common share of the Company at an exercise price of \$2.49 for a period of 36 months from the date of closing.

On February 19, 2014 Titan completed an offering of securities pursuant to an agency agreement dated February 10, 2014 between the Company and Dundee Securities Ltd. (“the Agent”). The offering consisted of 7,950,000 units and full over-allotment of 1,192,500 units for a total of 9,142,500 units at a price of \$1.27 per unit for aggregate gross proceeds of \$11,588,667 (\$10,608,580 net of closing costs including 6% cash commission of \$675,242 paid in accordance with the 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 \$1.81 and will expire February 19, 2017. The warrants were valued at \$1,407,195 using a comparable warrant quoted in an active market, adjusted for differences in the terms of the warrant and the balance of \$10,181,472 was allocated to common shares.

Pursuant to the agency agreement, in addition to the cash commission paid to the Agent, broker warrants were issued to purchase 532,710 units. Each broker warrant entitles the holder thereof to acquire one unit of the Company at the price of \$1.27 for a period of 24 months following the closing date. Each unit consists of one common share and one warrant. Each warrant entitles the holder to acquire one common share of the Company at an exercise price of \$1.81 for a period of 36 months from the date of closing.

On March 13, 2013 Titan completed an offering of securities pursuant to an agency agreement. The offering consisted of 6,260,763 units at \$0.99 per unit for gross proceeds of \$6,180,688 (\$5,422,548 net of closing costs including a 7% commission of \$432,648 paid in accordance with the terms of the agency agreement). Each unit comprised one common share of Titan and one warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company for \$1.18 and expires on March 13, 2018. The warrants were valued at \$882,955 using a proportionate fair value method and the balance of \$5,297,733 was allocated to common shares.

Pursuant to the agency agreement, in addition to the cash commission paid to the Agent, broker warrants were issued to purchase 438,253 common shares at a price of \$0.99 per share for a period of 24 months following the closing date.

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

Subject to shareholder approval, Titan has reserved and set aside up to 10% of the issued and outstanding shares of Titan for granting of options to employees, officers, consultants and advisers. At, June 30, 2014, 6,654,868 common shares (December 31, 2013: 4,439,622) were available for issue in accordance with the Company’s stock option plan. The terms of these options are determined by the Board of Directors. A summary of the status of the Company’s outstanding stock options as of June 30, 2014 and June 30, 2013 and changes during the periods ended on those dates is presented in the following table:

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three and Six Months Ended June 30, 2014
(In U.S. Dollars)

5. **SHARE CAPITAL** (continued)

	Six Months Ended June 30, 2014		Six Months Ended June 30, 2013	
	<u>Number of stock options</u>	<u>Weighted-average exercise price</u>	<u>Number of stock options</u>	<u>Weighted-average exercise price</u>
Balance, beginning	2,776,922	\$0.62	2,602,452	\$0.52
Granted	658,491	\$1.75	45,591	\$0.78
Exercised	(155,000)	\$0.34	(522,265)	\$0.27
Expired	<u>(5,941)</u>	\$1.34	<u>0.00</u>	\$0.00
Balance, ending	<u>3,274,472</u>	\$0.86	<u>2,125,778</u>	\$0.58

The weighted-average remaining contractual life and weighted-average exercise price of options outstanding and of options exercisable as at June 30, 2014 are as follows:

<u>Exercise price</u>	Options Outstanding		Weighted-average remaining contractual life (years)	Options Exercisable	
	<u>Number outstanding</u>	<u>Weighted- average exercise price</u>		<u>Number exercisable</u>	<u>Weighted- average exercise price</u>
\$0.23	73,594	\$0.23	0.2	73,594	\$0.23
\$0.28	600,000	\$0.28	0.9	600,000	\$0.28
\$0.30	126,000	\$0.30	1.0	126,000	\$0.30
\$0.53	1,013,553	\$0.53	4.1	947,062	\$0.53
\$0.60	10,000	\$0.60	1.1	10,000	\$0.60
\$0.64	50,000	\$0.64	1.2	50,000	\$0.64
\$0.78	49,591	\$0.78	3.8	49,591	\$0.78
\$0.90	305,107	\$0.90	4.5	305,107	\$0.90
\$1.19	80,000	\$1.19	1.6	80,000	\$1.19
\$1.31	47,532	\$1.31	2.9	47,532	\$1.31
\$1.37	25,000	\$1.37	2.0	25,000	\$1.37
\$1.40	102,759	\$1.40	2.6	102,759	\$1.40
\$1.56	32,845	\$1.56	2.2	32,845	\$1.56
\$1.57	100,000	\$1.57	1.3	100,000	\$1.57
\$1.60	106,096	\$1.60	4.7	106,096	\$1.60
\$1.77	<u>552,395</u>	\$1.77	4.9	<u>163,003</u>	\$1.77
	<u>3,274,472</u>	\$0.86	3.3	<u>2,818,589</u>	\$0.74

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

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three and Six Months Ended June 30, 2014
(In U.S. Dollars)

5. **SHARE CAPITAL** (continued)

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

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

Grant date/Person entitled	Number of Options	Vesting Conditions	Contractual life of Options
March 6, 2014, option grants to Officer	106,096	Immediate	5 years
May 21, 2014, option grants to Directors, Officers and Consultants	151,877	Immediate	5 years
May 21, 2014, option grants to Employees	400,518	Vest as to 1/3 of the total number of Options granted, every year from Option Date	5 years

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	
	<u>2014</u>	<u>2013</u>
Fair Value at grant date	\$1.24 - \$1.31	\$0.62
Share price at grant date	\$1.60 - \$1.78	\$0.78
Exercise price	\$1.60 - \$1.78	\$0.78
Expected Volatility	98% - 106%	110%
Option Life	5 years	5 years
Expected dividends	nil	nil
Risk-free interest rate (based on government bonds)	1.54% - 1.67%	1.34%

The following is a summary of outstanding warrants included in Shareholder's Equity as at June 30, 2014 and June 30, 2013 and changes during the periods then ended.

	<u>June 30, 2014</u>		<u>June 30, 2013</u>	
	<u>Number of Warrants</u>	<u>Amount</u>	<u>Number of Warrants</u>	<u>Amount</u>
Opening Balance	23,705,018	\$8,022,005	17,444,255	\$7,139,050
Issued March 13, 2013				
Exercise Price of \$1.18				
Expires March 13, 2018			6,260,763	882,955

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three and Six Months Ended June 30, 2014
(In U.S. Dollars)

5. **SHARE CAPITAL** (continued)

Exercised during the period				
Exercise Price of \$1.18				
Expiry March 13, 2018	(835,320)	(117,805)		
Exercised during the period				
Exercise Price \$1.65				
Expiry December 16, 2016	(671,000)	(252,350)		
Exercised during the period				
Exercise Price \$1.66				
Expiry March 14, 2017	(1,596,026)	(465,182)		
Exercised during the period				
Exercise Price \$1.74				
Expiry December 10, 2015	<u>(1,241,600)</u>	<u>(665,391)</u>		
Ending Balance	<u>19,361,072</u>	<u>\$6,521,277</u>	<u>23,705,018</u>	<u>\$8,022,005</u>

In addition to the warrants listed above, at June 30, 2014, the Company has issued and outstanding from previous issues, 840,641 broker warrants.

6. **WARRANT LIABILITY**

June 30, 2014

	<u>Number of</u> <u>Warrants</u>	<u>Amount</u>
Issue of warrants at February 19, 2014, expire February 19, 2017	9,142,500	\$1,407,195
Issue of Warrants April 23, 2014, expire April 23, 2017	<u>12,203,189</u>	<u>3,539,901</u>
Total	21,345,689	4,947,096
Warrants exercised during the period	(241,000)	(47,891)
Foreign exchange adjustment	-	216,618
Fair value Adjustment	<u>-</u>	<u>5,697,868</u>
Balance at June 30, 2014	<u>21,104,689</u>	<u>\$10,813,691</u>

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three and Six Months Ended June 30, 2014
(In U.S. Dollars)

7. INCOME TAXES

Losses carried forward

(a) The Company has non-capital losses of approximately \$28,339,169 available to reduce future income taxes. The non-capital losses expire approximately as follows:

2023	\$ 14,450
2024	255,769
2025	216,457
2026	230,847
2027	107
2028	633,610
2029	186,708
2030	2,003,594
2031	9,423,694
2032	6,517,436
2033	<u>8,856,497</u>
	<u>\$28,339,169</u>

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

8. COMMITMENTS

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

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

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

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

As a part of its program of research and development around the SPORT™ Surgical System, the Company has outsourced certain aspects of the design and development to a U.S. based technology and development company. At June 30, 2014, \$4,982,731 in purchase orders remains outstanding. Subsequent to June 30, 2014 a further \$35,000 in purchase orders were issued to the same company. The Company also has on deposit with this same U.S. supplier \$860,000 to be applied against future invoices, as well as \$40,000 applicable to other suppliers.

The Company has entered into a number of licensing agreements with suppliers and Universities that will require payments to be made to them, in future years, based on the achievement, by the Company, of certain milestones which could total up to \$352,575. 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%.

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three and Six Months Ended June 30, 2014
(In U.S. Dollars)

8. **COMMITMENTS** (continued)

The Company has entered into a number of licensing agreements with educational and medical institutions as well as suppliers, for the development and provision of items to be incorporated into the SPORT™ Surgical System. These agreements require Titan to make periodic payments in 2014 and beyond.

2014	\$ 2,500
2015	\$80,000
2016	\$80,000
2017	\$80,000
2018	\$ 5,000
2019 and thereafter	\$ 5,000

9. **RELATED PARTY TRANSACTIONS**

During the period ended June 30, 2014, compensation and stock option transactions between the Company and directors, officers and other related parties were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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

Officers and Directors of the Company control approximately 6.33% of the Company.

	<u>June 30, 2014</u>		<u>December 31, 2013</u>	
	BASE	%	BASE	%
John Barker	149,000	0.15	149,000	0.21
Martin Bernholtz	1,341,500	1.35	1,291,500	1.79
John Hargrove	88,200	0.09	56,200	0.08
Stephen Randall	59,600	0.06	45,600	0.06
Reiza Rayman	4,623,917	4.66	4,823,917	6.68
John Valvo	<u>25,000</u>	<u>0.02</u>	<u>25,000</u>	<u>0.04</u>
TOTAL	<u>6,287,217</u>	<u>6.33</u>	<u>6,391,217</u>	<u>8.86</u>
Common Shares Outstanding	<u>99,293,396</u>	<u>100%</u>	<u>72,165,434</u>	<u>100%</u>

10. **SEGMENTED REPORTING**

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

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three and Six Months Ended June 30, 2014
(In U.S. Dollars)

11. EVENTS AFTER THE REPORTING DATE

During July, 2014, 120,000 stock options were exercised for proceeds of \$38,629 and issuance of 120,000 common shares.

On July 7, 2014, 93,225 broker warrants were exercised for proceeds of \$183,615 and the issuance of 93,225 April 23, 2014 units. Each unit consists of one common share and one warrant. Each warrant shall entitle the holder to purchase an additional common share of the Company at an exercise price of \$2.49 at any time on or before April 23, 2017.

During the month of July, 1,363,200 warrants were exercised for proceeds of \$2,476,558 and the issuance of 1,363,200 common shares.