

TITAN MEDICAL INC.
Unaudited Condensed Interim Financial Statements
Three and Six Months Ended June 30, 2015 and 2014

(IN UNITED STATES DOLLARS)

TITAN MEDICAL INC.
Unaudited Condensed Interim Balance Sheets
As at June 30, 2015 and December 31, 2014
(In U.S. Dollars)

	June 30, 2015	December 31, 2014
ASSETS		
CURRENT		
Cash and cash equivalents	\$19,891,245	\$26,165,182
Short-term investments (Note 2 (c))	-	7,758,000
Amounts receivable	38,462	142,329
Deposits (Note 8)	900,000	900,000
Prepaid expenses	<u>27,850</u>	<u>60,279</u>
Total Current Assets	20,857,557	35,025,790
Furniture and Equipment (Note 3)	4,590	16,265
Patent Rights (Note 4)	<u>391,942</u>	<u>347,381</u>
TOTAL ASSETS	<u>\$21,254,089</u>	<u>\$35,389,436</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$5,761,634	\$2,766,315
Warrant liability (Note 2(h) and 6)	<u>2,789,286</u>	<u>2,997,963</u>
Total Current Liabilities	8,550,920	5,764,278
Non-Current Liabilities (Note 9)	<u>100,000</u>	-
TOTAL LIABILITIES	<u>8,650,920</u>	<u>5,764,278</u>
SHAREHOLDERS' EQUITY		
Share Capital (Note 5(a))	73,170,345	73,094,032
Contributed Surplus	2,775,857	2,491,427
Warrants (Note 5 (b))	6,008,719	6,014,360
Deficit	<u>(69,351,752)</u>	<u>(51,974,661)</u>
Total Equity	<u>12,603,169</u>	<u>29,625,158</u>
TOTAL LIABILITIES & EQUITY	<u>\$21,254,089</u>	<u>\$35,389,436</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, 2015 and 2014
(In U.S. Dollars)

	Share Capital Number	Share Capital Amount	Contributed Surplus	Warrants	Deficit	Total Equity
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 agreement	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>
Balance - December 31, 2014	102,555,338	\$ 73,094,032	\$ 2,491,427	\$ 6,014,360	\$ (51,974,661)	\$ 29,625,158
Warrants exercised during the period	56,275	60,119		(5,641)		54,478
Options exercised during the period	20,000	16,194	(7,218)			8,976
Stock based compensation vested			291,648			291,648
Net and Comprehensive loss for the period					(17,377,091)	(17,377,091)
Balance – June 30, 2015	<u>102,631,613</u>	<u>\$ 73,170,345</u>	<u>\$ 2,775,857</u>	<u>\$ 6,008,719</u>	<u>\$ (69,351,752)</u>	<u>\$ 12,603,169</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, 2015 and 2014
(In U.S. Dollars)

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
REVENUE	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -
EXPENSES				
Amortization	4,296	22,906	2,937	11,956
Consulting fees	58,381	153,310	87,077	127,902
Stock based compensation (Note 5(b))	234,605	291,648	161,881	379,355
Insurance	7,823	15,646	10,216	20,431
Management salaries and fees	310,198	577,513	319,922	540,256
Marketing and investor relations	111,504	172,790	53,528	75,027
Office and general	38,308	122,044	48,914	119,299
Professional fees	161,781	306,440	137,852	236,054
Rent	44,753	85,730	43,310	89,545
Research and development	8,266,857	14,415,571	2,718,579	4,063,226
Travel	81,243	148,209	46,045	84,894
Foreign exchange (gain) loss	(384,885)	1,152,983	(983,491)	(930,765)
	8,934,864	17,464,790	2,646,770	4,817,180
FINANCE INCOME (LOSS)				
Interest	24,487	77,863	102,624	122,414
Gain (Loss) on change in fair value of warrants (Note 2(h) and 6)	659,554	9,836	(4,237,546)	(5,697,868)
	684,041	87,699	(4,134,922)	(5,575,454)
NET AND COMPREHENSIVE LOSS FOR THE PERIOD	\$8,250,823	\$17,377,091	\$6,781,692	\$10,392,634
BASIC AND DILUTED LOSS PER SHARE	\$0.08	\$0.17	\$0.07	\$0.12
WEIGHTED AVERAGE NUMBER OF COMMON SHARES, Basic and Diluted	102,590,844	102,577,960	95,781,655	86,306,243

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, 2015 and 2014
(In U.S. Dollars)

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
OPERATING ACTIVITIES				
Net loss for the period	\$(8,250,823)	\$(17,377,091)	\$(6,781,692)	\$(10,392,634)
Items not involving cash:				
Amortization	4,296	22,906	2,937	11,956
Stock based compensation	234,605	291,648	294,783	451,203
Warrant liability – fair value adjustment	(659,555)	(9,836)	4,237,546	5,697,868
Warrant liability – foreign exchange adjustment	56,785	(198,841)		
Changes in non-cash working capital items:				
Amounts receivable, prepaid expenses and deposits	73,092	136,297	(633,458)	(673,269)
Accounts payable and accrued liabilities	1,060,316	3,095,318	1,096,924	1,077,703
Cash used in operating activities	(7,481,284)	(14,039,599)	(1,782,960)	(3,827,173)
FINANCING ACTIVITIES				
Net proceeds from issuance of common shares and warrants	47,493	63,454	25,802,096	40,998,929
Cash provided by financing activities	47,493	63,454	25,802,096	40,998,929
INVESTING ACTIVITIES				
(Increase)/ decrease in furniture and equipment	(1,599)	(3,562)	299	1,906
(Increase)/ decrease in Short-term Investments	3,548,250	7,758,000		
Costs of Patents	(27,952)	(52,230)	(43,112)	(58,957)
Cash used in investing activities	3,518,699	7,702,208	(42,813)	(57,051)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,915,092)	(6,273,937)	23,976,323	37,114,705
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	23,806,337	26,165,182	15,584,466	2,446,084
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$19,891,245	\$19,891,245	\$ 39,560,789	\$39,560,789
CASH AND CASH EQUIVALENTS COMPRISE:				
Cash	\$810,273	\$810,273	\$1,073,646	\$1,073,646
Term Deposits	19,080,972	19,080,972	38,487,143	38,487,143
	\$19,891,245	\$19,891,245	\$39,560,789	\$39,560,789

See accompanying notes to financial statements

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three and Six Months Ended June 30, 2015
(In U.S. Dollars)

1. DESCRIPTION OF BUSINESS

Nature of Operations:

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

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

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

Basis of Preparation:

(a) Statement of Compliance

These condensed interim financial statements for the three and six months ending June 30, 2015 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 2014 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 2014 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 11, 2015.

(b) Basis of Measurement

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

(c) Functional and Presentation Currency

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

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

TITAN MEDICAL INC.

Notes to the Unaudited Condensed Interim Financial Statements

Three and Six Months Ended June 30, 2015

(In U.S. Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Use of Estimates and Judgements

The preparation of 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.

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.

(b) Cash and Cash Equivalents

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

(c) Short-term Investments

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

(d) Furniture and Equipment

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

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

(e) Patent Rights

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

(f) Impairment of long-lived assets

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

(g) 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.

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

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

(h) Warrant Liability

Effective January 1, 2014, the Company adopted, on a prospective basis, the U.S. dollar as its functional and presentation currency. In accordance with IAS 32, because the exercise prices of the warrants issued February 19, and April 23, 2014, as well as the warrants issued from the exercise of broker warrants, are not a fixed amount as they are denominated in a currency (Canadian dollar) other than the Company's functional currency (U.S. dollar), the warrants are accounted for as a derivative financial liability. Each Warrant Liability is initially measured at fair value and subsequent changes in fair value are recorded through Net and Comprehensive Loss for the period. The fair value of these warrants was determined initially using a comparable warrant quoted in an active market, adjusted for differences in the terms of the warrant. At June 30, 2015, the Warrant Liability was adjusted to fair value measured at the market price of the listed warrants.

(i) 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, 2015 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, 2015
(In U.S. Dollars)

3. FURNITURE AND EQUIPMENT

	Computer Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Cost				
Balance at December 31, 2014	\$ 65,837	\$ 261,483	\$ 172,601	\$499,921
Additions (disposals)	<u>3,562</u>	-	-	<u>3,562</u>
Balance at June 30, 2015	\$ 69,399	\$ 261,483	\$ 172,601	\$503,483
Amortization & Impairment Losses				
Balance at December 31, 2014	\$ 64,168	\$ 246,886	\$ 172,601	\$483,655
Amortization for the period	<u>641</u>	<u>14,597</u>	-	<u>15,238</u>
Balance at June 30, 2015	\$ 64,809	\$ 261,483	\$ 172,601	\$498,893
Net Book Value				
At December 31, 2014	<u>\$ 1,669</u>	<u>\$ 14,597</u>	<u>\$ -</u>	<u>\$ 16,266</u>
At June 30, 2015	<u>\$ 4,590</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,590</u>

4. PATENT RIGHTS

Cost	
Balance at December 31, 2014	\$ 504,488
Additions	<u>52,230</u>
Balance at June 30, 2015	<u>\$ 556,718</u>
Amortization & Impairment Losses	
Balance at December 31, 2014	\$ 157,107
Amortization and other adjustments for the period	<u>7,669</u>
Balance at June 30, 2015	<u>\$ 164,776</u>
Net Book Value	
At December 31, 2014	<u>\$ 347,381</u>
At June 30, 2015	<u>\$ 391,942</u>

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three and Six Months Ended June 30, 2015
(In U.S. Dollars)

5. SHARE CAPITAL

a)	Authorized:	unlimited number of common shares, no par value
	Issued:	102,631,613 (December 31, 2014: 102,555,338)

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

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

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

On February 19, 2014 Titan completed an offering of securities pursuant to an agency agreement dated February 10, 2014 between the Company and Dundee Securities Ltd. ("the Agent"). The offering consisted of 7,950,000 units and full over-allotment of 1,192,500 units for a total of 9,142,500 units at a price of CDN\$1.40 per unit for aggregate gross proceeds of \$11,588,667 (\$10,608,580 net of closing costs including 6% cash commission of \$675,242 paid in accordance with the terms of the agency agreement). Each unit comprised one common share of Titan and one warrant. Each warrant entitles its holder to purchase one additional common share of Titan for CDN\$2.00 and will expire February 19, 2017. The warrants were valued at \$1,407,195 using a comparable warrant quoted in an active market, adjusted for differences in the terms of the warrant and the balance of \$10,181,472 was allocated to common shares.

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

b) Warrants, Stock Options and Compensation Options

Subject to shareholder approval, Titan has reserved and set aside up to 10% of the issued and outstanding shares of Titan for granting of options to employees, officers, consultants and advisors. At, June 30, 2015, 7,368,806 common shares (December 31, 2014: 8,025,930) 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, 2015 and June 30, 2014 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, 2015
(In U.S. Dollars)

5. **SHARE CAPITAL** (continued)

	Six Months Ended June 30, 2015		Six Months Ended June 30, 2014	
	<u>Number of stock options</u>	<u>Weighted-average exercise price (CDN)</u>	<u>Number of stock options</u>	<u>Weighted-average exercise price (CDN)</u>
Balance, beginning	2,229,604	\$1.14	2,776,922	\$0.67
Granted	684,751	\$1.72	658,491	\$1.91
Exercised	(20,000)	\$0.56	(155,000)	\$0.38
Expired	<u>-</u>	\$ -	<u>(5,941)</u>	\$1.49
Balance, ending	<u>2,894,355</u>	\$1.28	<u>3,274,472</u>	\$0.92

The weighted-average remaining contractual life and weighted-average exercise price of options outstanding and of options exercisable as at June 30, 2015 are as follows:

Options Outstanding				Options Exercisable	
<u>Exercise price (CDN)</u>	<u>Number outstanding</u>	<u>Weighted- average exercise price (CDN)</u>	<u>Weighted-average remaining contractual life (years)</u>	<u>Number exercisable</u>	<u>Weighted- average exercise price (CDN)</u>
\$0.32	126,000	\$0.32	.04	126,000	\$0.32
\$0.56	672,368	\$0.56	3.08	672,368	\$0.56
\$0.64	10,000	\$0.64	.08	10,000	\$0.64
\$0.68	50,000	\$0.68	.21	50,000	\$0.68
\$0.83	49,591	\$0.83	2.75	49,591	\$0.83
\$0.96	305,107	\$0.96	3.50	305,107	\$0.96
\$1.27	80,000	\$1.27	0.58	80,000	\$1.27
\$1.39	19,746	\$1.39	4.71	19,746	\$1.39
\$1.39	47,532	\$1.39	1.88	47,532	\$1.39
\$1.46	25,000	\$1.46	1.00	25,000	\$1.46
\$1.49	102,759	\$1.49	1.63	102,759	\$1.49
\$1.66	32,845	\$1.66	1.13	32,845	\$1.66
\$1.67	100,000	\$1.67	.29	100,000	\$1.67
\$1.72	684,751	\$1.72	5.00	207,712	\$1.72
\$1.76	106,096	\$1.76	3.67	106,096	\$1.76
\$1.94	<u>482,560</u>	\$1.94	4.17	<u>285,383</u>	\$1.94
	<u>2,894,355</u>	\$1.28	3.15	<u>2,220,139</u>	\$1.12

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, 2015

(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 on occasion use the services of consultants. Options granted in these situations 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
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March 6, 2014, option grants to Officer	106,096	immediately	5 years
May 21, 2014, option grants to Directors, Officers and Consultants	151,877	immediately	5 years
May 21, 2014, option grants to Employees	400,518	Vest as to 1/3 of the total number of Options granted, every year from Option Date	5 years
December 16, 2014, option grants to Consultants	19,746	immediately	5 years
June 9, 2015, option grants to Directors, Officers and Consultants	207,712	immediately	5 years
June 9, 2015, option grants to Employees	477,039	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>2015</u>	<u>2014</u>
Fair Value at grant date (CDN)	\$1.006	\$1.36 - \$1.43
Share price at grant date (CDN)	\$1.72	\$1.76 - \$1.94
Exercise price (CDN)	\$1.72	\$1.76 - \$1.94
Expected Volatility	71.83%	98% - 106%
Option Life	5 years	5 years
Expected dividends	nil	nil
Risk-free interest rate (based on government bonds)	0.66 %	1.54% - 1.67%

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three and Six Months Ended June 30, 2015
(In U.S. Dollars)

5. **SHARE CAPITAL** (continued)

The following is a summary of outstanding warrants included in Shareholder's Equity as at June 30, 2015 and June 30, 2014 and changes during the periods then ended.

	<u>June 30, 2015</u>		<u>June 30, 2014</u>	
	<u>Number of Warrants</u>	<u>Amount</u>	<u>Number of Warrants</u>	<u>Amount</u>
Opening Balance	17,963,334	\$6,014,360	23,705,018	\$8,022,005
Exercised during the period Exercise Price of CDN\$1.25 Expiry March 13, 2018	(40,000)	(5,641)	(835,320)	(117,805)
Exercised during the period Exercise Price CDN\$1.75 Expiry December 16, 2016	-	-	(671,000)	(252,350)
Exercised during the period Exercise Price CDN\$1.77 Expiry March 14, 2017	-	-	(1,596,026)	(465,182)
Exercised during the period Exercise Price CDN\$1.85 Expiry December 10, 2015	<u>-</u>	<u>-</u>	<u>(1,241,600)</u>	<u>(665,391)</u>
Ending Balance	<u>17,923,334</u>	<u>\$6,008,719</u>	<u>19,361,072</u>	<u>\$6,521,277</u>

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three and Six Months Ended June 30, 2015
(In U.S. Dollars)

6. WARRANT LIABILITY

	<u>June 30,</u> <u>2015</u>		<u>December 31,</u> <u>2014</u>	
	<u>Number of</u> <u>Warrants</u>	<u>Amount</u>	<u>Number of</u> <u>Warrants</u>	<u>Amount</u>
Balance, beginning	20,664,770	\$2,997,963	-	-
Issue of warrants expiring, February 19, 2017	-	-	9,142,500	\$1,407,195
Issue of warrants expiring, April 23, 2017	-	-	12,203,189	3,539,901
Issue of Warrants from exercise of broker unit warrants	-	-	285,781	107,637
Warrants exercised during the period	-	-	(966,700)	(474,836)
Foreign exchange adjustment	-	(198,841)	-	(563,268)
Fair value adjustment	-	(9,836)	-	(1,018,666)
Balance, ending	<u>20,664,770</u>	<u>\$2,789,286</u>	<u>20,664,770</u>	<u>\$2,997,963</u>

In addition to the warrants listed above, at June 30, 2015, the Company has issued and outstanding, 679,765 broker unit warrants.

7. INCOME TAXES

Losses carried forward

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

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

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

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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. Effective April 30, 2015 the Company entered into a lease surrender agreement with the landlord for initial space leased on July 15, 2011. As a result, the Company now has only the space leased February 1, 2012 and it has been sublet.

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

As a part of its program of research and development around the SPORT™ Surgical System, the Company has outsourced certain aspects of the design and development to a U.S. based technology and development company. At June 30, 2015, \$11,051,608 in purchase orders remains outstanding. The Company also has on deposit with this same U.S. supplier \$860,000 to be applied against future invoices, as well as \$40,000 applicable to other suppliers.

During the quarter the Company issued further purchase orders to an additional U.S. supplier to provide further design and engineering services. At June 30, 2015, \$542,026 in purchase orders remains outstanding.

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 \$1,010,000. 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 SPORT™ Surgical System. These agreements require Titan to make periodic payments in 2015 and beyond.

2015	\$ 80,000
2016	\$ 380,000
2017	\$ 80,000
2018	\$ 5,000
2019	\$ 5,000
2020	\$ 5,000

2021 and thereafter \$5,000 per year

TITAN MEDICAL INC.
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9. **RELATED PARTY TRANSACTIONS**

During the three months ended June 30, 2015, transactions between the Company and directors, officers and other related parties were related to compensation matters 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.

Compensation to the Executive Officers amounted to \$243,154 and \$456,886 for the three and six months ended June 30, 2015 compared to \$279,571 and \$556,980 for the same period in 2014.

During the period Titan entered into an Option Agreement (“Agreement”) with a Company that has developed a patent for Markerless Tracking of Robotic Surgical Tools that can be incorporated into Titan’s SPORT™ Surgical System. Under the terms of the Agreement Titan will pay to the Company a non-refundable Option Fee of \$300,000 as follows:

\$100,000 upon signing the Agreement
\$100,000 January 2, 2016
\$100,000 October 1, 2016

In addition, Titan shall have the right at any time up to and including January 2, 2017, to exercise the Option by paying a fee of \$1.3 million for those rights. This License Fee shall be due and payable upon execution of License Agreement.

A member of Titan’s Senior Management is also a Director, member of the Company senior management team, co-inventor of the technology, co-founder of the Company and a significant shareholder of the Company.

Officers and Directors of the Company control approximately 6.21% of the Company.

	June 30, 2015		December 31, 2014	
	BASE	%	BASE	%
John Barker	183,632	0.18	183,632	0.18
Martin Bernholtz	1,341,500	1.31	1,341,500	1.31
Dennis Fowler	73,000	0.07	73,000	0.07
John Hargrove	148,200	0.14	148,200	0.14
Stephen Randall	102,800	0.10	102,800	0.10
Reiza Rayman	4,487,117	4.38	4,487,117	4.38
John Valvo	25,000	0.02	25,000	0.02
Bruce Wolff	<u>12,200</u>	<u>0.01</u>	<u>12,200</u>	<u>0.01</u>
TOTAL	<u>6,373,449</u>	<u>6.21</u>	<u>6,373,449</u>	<u>6.22</u>
Common Shares Outstanding	<u>102,631,613</u>	<u>100%</u>	<u>102,555,338</u>	<u>100%</u>

10. **SEGMENTED REPORTING**

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

11. EVENTS AFTER THE REPORTING DATE

On July 10, 2015, 39,000 stock options were exercised for proceeds of Cdn \$12,480 and the issuance of 39,000 common shares.

On July 13, 2015, 37,000 stock options were exercised for proceeds of Cdn \$11,840 and the issuance of 37,000 common shares.

On July 23, 2015, the Company filed, with the Ontario Securities Commission, a Preliminary Short Form Base Shelf Prospectus, relating to the offering for sale from time to time, during the 25 month period covered by the prospectus, securities with a total offering price of U.S. \$45 million.