

TITAN MEDICAL INC.
Unaudited Condensed Interim Financial Statements
Three Months Ended March 31, 2015 and 2014

(IN UNITED STATES DOLLARS)

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

	March 31, 2015	December 31, 2014
ASSETS		
CURRENT		
Cash and cash equivalents	\$23,806,337	\$26,165,182
Short-term investments (Note 2 (c))	3,548,250	7,758,000
Amounts receivable	94,372	142,329
Deposits (Note 8)	900,000	900,000
Prepaid expenses	<u>45,032</u>	<u>60,279</u>
Total Current Assets	28,393,991	35,025,790
Furniture and Equipment (Note 3)	3,410	16,265
Patent Rights (Note 4)	<u>367,867</u>	<u>347,381</u>
	<u>\$28,765,268</u>	<u>\$35,389,436</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$4,801,319	\$2,766,315
Warrant liability (Note 2(h) and 6)	<u>3,392,055</u>	<u>2,997,963</u>
	<u>8,193,374</u>	<u>5,764,278</u>
SHAREHOLDERS' EQUITY		
Share Capital (Note 5(a))	73,111,776	73,094,032
Contributed Surplus	2,546,687	2,491,427
Warrants (Note 5 (b))	6,014,360	6,014,360
Deficit	<u>(61,100,929)</u>	<u>(51,974,661)</u>
Total Equity	<u>20,571,894</u>	<u>29,625,158</u>
TOTAL LIABILITIES & EQUITY	<u>\$28,765,268</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 March 31, 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	9,142,500	11,588,667				11,588,667
Share issue expense		(980,087)				(980,087)
Warrant liability issued during the period		(1,407,195)				(1,407,195)
Warrants exercised during the period	3,067,371	5,147,325		(621,440)		4,525,885
Options exercised during the period	155,000	100,356	(47,593)			52,763
Stock based compensation vested			194,029			194,029
Net and Comprehensive loss for the period					(3,610,943)	(3,610,943)
Balance – March 31, 2014	<u>84,530,305</u>	<u>\$ 44,732,007</u>	<u>\$ 2,386,473</u>	<u>\$ 7,400,565</u>	<u>\$ (42,135,343)</u>	<u>\$ 12,383,702</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	16,275	13,718				13,718
Options exercised during the period	5,000	4,026	(1,783)			2,243
Stock based compensation vested			57,043			57,043
Net and Comprehensive loss for the period					(9,126,268)	(9,126,268)
Balance – March 31, 2015	<u>102,576,613</u>	<u>\$ 73,111,776</u>	<u>\$ 2,546,687</u>	<u>\$ 6,014,360</u>	<u>\$ (61,100,929)</u>	<u>\$ 20,571,894</u>

See accompanying notes to financial statements.

TITAN MEDICAL INC.
Unaudited Condensed Interim Statements of Net and Comprehensive Loss
For the Three Months ended March 31, 2015 and 2014
(In U.S. Dollars)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
REVENUE	\$ _____ -	\$ _____ -
EXPENSES		
Amortization	18,611	9,018
Consulting fees	94,929	40,825
Stock based compensation (Note 5(b))	57,043	217,474
Insurance	7,823	10,216
Management salaries and fees	267,315	220,334
Marketing and investor relations	61,285	21,499
Office and general	83,735	70,386
Professional fees	144,659	98,203
Rent	40,977	46,235
Research and development	6,148,714	1,344,646
Travel	66,967	38,849
Foreign exchange loss	1,537,867	52,726
	8,529,925	2,170,411
FINANCE INCOME (LOSS)		
Interest	53,376	19,790
Loss on change in fair value of warrants (Note 2(h) and 6)	(649,719)	(1,460,322)
	(596,343)	(1,440,532)
NET AND COMPREHENSIVE LOSS FOR THE PERIOD	\$9,126,268	\$3,610,943
BASIC AND DILUTED LOSS PER SHARE	\$0.09	\$0.05
WEIGHTED AVERAGE NUMBER OF COMMON SHARES, Basic and Diluted	102,564,428	76,725,548

See accompanying notes to financial statements

TITAN MEDICAL INC.
Unaudited Condensed Interim Statements of Cash Flows
For the Three Months ended March 31, 2015 and 2014
(In U.S. Dollars)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
OPERATING ACTIVITIES		
Net loss for the period	\$(9,126,268)	\$(3,610,943)
Items not involving cash:		
Amortization	18,611	9,018
Stock based compensation	57,043	156,421
Warrant liability – fair value adjustment	649,719	1,460,322
Warrant liability – foreign exchange adjustment	(255,627)	(1,168)
Changes in non-cash working capital items:		
Amounts receivable, prepaid expenses and deposits	63,204	(39,811)
Accounts payable and accrued liabilities	2,035,003	(19,221)
Cash used in operating activities	(6,558,315)	(2,045,382)
FINANCING ACTIVITIES		
Net proceeds from issuance of common shares and warrants	15,961	15,198,001
Cash provided by financing activities	15,961	15,198,001
INVESTING ACTIVITIES		
(Increase)/ decrease in furniture and equipment	(1,963)	1,606
(Increase)/ decrease in Short-term Investments	4,209,750	
Costs of Patents	(24,278)	(15,843)
Cash used in investing activities	4,183,509	(14,237)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,358,845)	13,138,382
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	26,165,182	2,446,084
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$23,806,337	\$ 15,584,466
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash	\$1,027,141	\$1,128,298
Term Deposits	22,779,196	14,456,168
	\$23,806,337	\$15,584,466

See accompanying notes to financial statements

1. DESCRIPTION OF BUSINESS

Nature of Operations:

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

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

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

Basis of Preparation:

(a) Statement of Compliance

These condensed interim financial statements for the three months ending March 31, 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 May 12, 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.

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 March 31, 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 March 31, 2015 is based on level 1, quoted prices (unadjusted).

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three Months Ended March 31, 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>1,963</u>	<u>-</u>	<u>-</u>	<u>1,963</u>
Balance at March 31, 2015	\$ 67,800	\$ 261,483	\$ 172,601	\$501,884
Amortization & Impairment Losses				
Balance at December 31, 2014	\$ 64,168	\$ 246,886	\$ 172,601	\$483,655
Amortization for the period	<u>222</u>	<u>14,597</u>	<u>-</u>	<u>14,819</u>
Balance at March 31, 2015	\$ 64,390	\$ 261,483	\$ 172,601	\$498,474
Net Book Value				
At December 31, 2014	<u>\$ 1,669</u>	<u>\$ 14,597</u>	<u>\$ -</u>	<u>\$ 16,266</u>
At March 31, 2015	<u>\$ 3,410</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,410</u>

4. PATENT RIGHTS

Cost	
Balance at December 31, 2014	\$ 504,488
Additions	<u>24,278</u>
Balance at March 31, 2015	<u>\$ 528,766</u>
Amortization & Impairment Losses	
Balance at December 31, 2014	\$ 157,107
Amortization and other adjustments for the period	<u>3,792</u>
Balance at March 31, 2015	<u>\$ 160,899</u>
Net Book Value	
At December 31, 2014	<u>\$ 347,381</u>
At March 31, 2015	<u>\$ 367,867</u>

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three Months Ended March 31, 2015
(In U.S. Dollars)

5. SHARE CAPITAL

<i>a)</i>	<i>Authorized:</i>	unlimited number of common shares, no par value
	<i>Issued:</i>	102,576,613 (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, March 31, 2015, 8,033,057 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 March 31, 2015 and March 31, 2014 and changes during the years ended on those dates is presented in the following table:

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three Months Ended March 31, 2015
(In U.S. Dollars)

5. **SHARE CAPITAL** (continued)

	Three Months Ended March 31, 2015		Three Months Ended March 31, 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	\$0.66
Granted	-	\$ -	106,096	\$1.76
Exercised	(5,000)	\$0.56	(155,000)	\$0.38
Expired	<u>-</u>	\$ -	<u>(5,941)</u>	\$1.49
Balance, ending	<u>2,224,604</u>	\$1.14	<u>2,722,077</u>	\$0.72

The weighted-average remaining contractual life and weighted-average exercise price of options outstanding and of options exercisable as at March 31, 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	.29	126,000	\$0.32
\$0.56	687,368	\$0.56	3.33	687,368	\$0.56
\$0.64	10,000	\$0.64	.33	10,000	\$0.64
\$0.68	50,000	\$0.68	.46	50,000	\$0.68
\$0.83	49,591	\$0.83	3.00	49,591	\$0.83
\$0.96	305,107	\$0.96	3.75	305,107	\$0.96
\$1.27	80,000	\$1.27	0.83	80,000	\$1.27
\$1.39	19,746	\$1.39	4.71	19,746	\$1.39
\$1.39	47,532	\$1.39	2.13	47,532	\$1.39
\$1.46	25,000	\$1.46	1.25	25,000	\$1.46
\$1.49	102,759	\$1.49	1.88	102,759	\$1.49
\$1.66	32,845	\$1.66	1.38	32,845	\$1.66
\$1.67	100,000	\$1.67	.54	100,000	\$1.67
\$1.76	106,096	\$1.76	3.92	106,096	\$1.76
\$1.94	<u>482,560</u>	\$1.94	4.17	<u>151,877</u>	\$1.94
	<u>2,224,604</u>	\$1.14	2.64	<u>1,893,921</u>	\$1.00

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 Months Ended March 31, 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 non-employees. 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

March 6, 2014, option grants to Officer	106,096	immediately	5 years
May 21, 2014, option grants to Directors, Officers and Consultants	151,877	immediately	5 years
May 21, 2014, option grants to Employees	400,518	Vest as to 1/3 of the total number of Options granted, every year from Option Date	5 years
December 16, 2014, option grants to Consultants	19,746	immediately	5 years

Inputs for Measurement of Grant Date Fair Values

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

Directors, Management, Employees, Medical Advisors and Consultants

	<u>2015</u>	<u>2014</u>
Fair Value at grant date (CDN)	\$ -	\$1.76
Share price at grant date (CDN)	\$ -	\$1.76
Exercise price (CDN)	\$ -	\$1.76
Expected Volatility	%	106%
Option Life	5 years	5 years
Expected dividends	nil	nil
Risk-free interest rate (based on government bonds)	- %	1.67%

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three Months Ended March 31, 2015
(In U.S. Dollars)

5. **SHARE CAPITAL** (continued)

The following is a summary of outstanding warrants included in Shareholder's Equity as at March 31, 2015 and March 31, 2014 and changes during the periods then ended.

	<u>March 31,</u> <u>2015</u>		<u>March 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>
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	-	-	(576,100)	(81,247)
Exercised during the period Exercise Price CDN\$1.75 Expiry December 16, 2016	-	-	(221,000)	(83,114)
Exercised during the period Exercise Price CDN\$1.77 Expiry March 14, 2017	-	-	(750,000)	(218,597)
Exercised during the period Exercise Price CDN\$1.85 Expiry December 10, 2015	<u>-</u>	<u>-</u>	<u>(445,000)</u>	<u>(238,482)</u>
Ending Balance	<u>17,963,334</u>	<u>\$6,014,360</u>	<u>21,712,918</u>	<u>\$7,400,566</u>

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three Months Ended March 31, 2015
(In U.S. Dollars)

6. WARRANT LIABILITY

	<u>March 31,</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	-	(255,627)	-	(563,268)
Fair value adjustment	<u>-</u>	<u>649,719</u>	<u>-</u>	<u>(1,018,666)</u>
Balance, ending	<u>20,664,770</u>	<u>\$3,392,055</u>	<u>20,664,770</u>	<u>\$2,997,963</u>

In addition to the warrants listed above, at March 31, 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.

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three Months Ended March 31, 2015
(In U.S. Dollars)

8. **COMMITMENTS**

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

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

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

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

As a part of its program of research and development around the SPORT™ Surgical System, the Company has outsourced certain aspects of the design and development to a U.S. based technology and development company. At March 31, 2015, \$4,265,613 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 March 31, 2015, \$329,959 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 \$1,297,500. Subsequently, following commercialization, royalty payments will be required, based on a percentage of annual net sales of the licensed product, in the range of 4% to 6%.

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

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

2021 and thereafter \$5,000

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three Months Ended March 31, 2015
(In U.S. Dollars)

9. **RELATED PARTY TRANSACTIONS**

During the three months ended March 31, 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 \$179,094 for the Three Months Ended March 31, 2015 compared to \$283,361 for the same period in 2014.

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

	March 31, 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>102,576,613</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 April 23, 2015 the Company entered into a Full Surrender of Lease Agreement with its landlord for Units 3 and 4 of its leased premises in Ancaster, Ontario, effective April 30, 2015.

During the month of April the Company issued purchase orders in the amount of \$12,234,938 related to the ongoing design and development of the SPORT™ Surgical System.