

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

(IN UNITED STATES DOLLARS)

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

	September 30, 2015	December 31, 2014
ASSETS		
CURRENT		
Cash and cash equivalents	\$10,085,394	\$26,165,182
Short-term investments (Note 2 (c))	-	7,758,000
Amounts receivable	34,380	142,329
Deposits (Note 8)	900,000	900,000
Prepaid expenses	<u>32,145</u>	<u>60,279</u>
Total Current Assets	11,051,919	35,025,790
Furniture and Equipment (Note 3)	5,066	16,265
Patent Rights (Note 4)	<u>408,559</u>	<u>347,381</u>
TOTAL ASSETS	<u>\$11,465,544</u>	<u>\$35,389,436</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$7,407,275	\$2,766,315
Warrant liability (Note 2(h) and 6)	<u>2,163,843</u>	<u>2,997,963</u>
Total Current Liabilities	9,571,118	5,764,278
Non-Current Liabilities (Note 9)	<u>100,000</u>	-
TOTAL LIABILITIES	<u>9,671,118</u>	<u>5,764,278</u>
SHAREHOLDERS' EQUITY		
Share Capital (Note 5(a))	73,271,393	73,094,032
Contributed Surplus	2,765,652	2,491,427
Warrants (Note 5 (b))	6,008,719	6,014,360
Deficit	<u>(80,251,338)</u>	<u>(51,974,661)</u>
Total Equity	<u>1,794,426</u>	<u>29,625,158</u>
TOTAL LIABILITIES & EQUITY	<u>\$11,465,544</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 September 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		(5,041,847)				(5,041,847)
Warrants exercised during the period	7,191,936	13,587,859		(1,762,909)		11,824,950
Options exercised during the period	1,149,779	742,560	(344,420)			398,140
Stock based compensation vested			517,966			517,966
Net and Comprehensive loss for the period					(13,672,256)	(13,672,256)
Balance – September 30, 2014	<u>101,852,838</u>	<u>\$ 71,788,837</u>	<u>\$ 2,413,583</u>	<u>\$ 6,259,096</u>	<u>\$ (52,196,656)</u>	<u>\$ 28,264,860</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	156,000	117,242	(58,807)			58,435
Stock based compensation vested			333,032			333,032
Net and Comprehensive loss for the period					(28,276,677)	(28,276,677)
Balance – September 30, 2015	<u>102,767,613</u>	<u>\$ 73,271,393</u>	<u>\$ 2,765,652</u>	<u>\$ 6,008,719</u>	<u>\$ (80,251,338)</u>	<u>\$ 1,794,426</u>

See accompanying notes to financial statements.

TITAN MEDICAL INC.
Unaudited Condensed Interim Statements of Net and Comprehensive Loss
For the Three and Nine Months ended September 30, 2015 and 2014
(In U.S. Dollars)

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
REVENUE	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -
EXPENSES				
Amortization	4,782	27,688	3,820	15,775
Consulting fees	88,500	241,810	79,655	207,558
Stock based compensation (Note 5(b))	41,384	333,032	66,763	446,118
Insurance	7,269	22,915	10,019	30,451
Management salaries and fees	292,076	869,589	287,803	828,058
Marketing and investor relations	69,694	242,484	58,333	133,360
Office and general	93,091	215,134	261,717	381,017
Professional fees	132,872	439,312	88,556	324,610
Rent	(637)	85,094	43,911	133,456
Research and development	10,694,838	25,110,409	3,114,124	7,177,350
Travel	97,916	246,125	104,177	189,070
Foreign exchange (gain) loss	(181,904)	971,079	974,002	43,237
	11,339,881	28,804,671	5,092,880	9,910,060
FINANCE INCOME (LOSS)				
Interest	6,557	84,420	99,995	222,408
Gain (Loss) on change in fair value of warrants (Note 2(d) and 6)	433,738	443,574	1,713,264	(3,984,604)
	440,295	527,994	1,813,259	(3,762,196)
NET AND COMPREHENSIVE LOSS FOR THE PERIOD	\$10,899,586	\$28,276,677	\$3,279,621	\$13,672,256
BASIC AND DILUTED LOSS PER SHARE	\$0.11	\$0.28	\$0.03	\$0.15
WEIGHTED AVERAGE NUMBER OF COMMON SHARES, Basic and Diluted	102,718,146	102,625,202	101,054,257	91,276,269

See accompanying notes to financial statements

TITAN MEDICAL INC.
Unaudited Condensed Interim Statements of Cash Flows
For the Three and Nine Months ended September 30, 2015 and 2014
(In U.S. Dollars)

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
OPERATING ACTIVITIES				
Net loss for the period	\$(10,899,586)	\$(28,276,677)	\$(3,279,621)	\$(13,672,256)
Items not involving cash:				
Amortization	4,782	27,688	3,820	15,775
Stock based compensation	41,384	333,032	66,763	517,966
Warrant liability – fair value adjustment	(433,738)	(443,574)	(1,713,264)	3,984,604
Warrant liability – foreign exchange adjustment	(191,705)	(390,546)		
Changes in non-cash working capital items:				
Amounts receivable, prepaid expenses and deposits	(213)	136,083	(6,349)	(679,618)
Accounts payable and accrued liabilities	1,645,640	4,740,959	367,317	1,445,022
Cash used in operating activities	(9,833,436)	(23,873,035)	(4,561,334)	(8,388,507)
FINANCING ACTIVITIES				
Net proceeds from issuance of common shares and warrants	49,459	112,913	2,652,696	43,651,625
Cash provided by financing activities	49,459	112,913	2,652,696	43,651,625
INVESTING ACTIVITIES				
(Increase)/ decrease in furniture and equipment	(966)	(4,528)	635	2,540
(Increase)/ decrease in Short-term Investments	-	7,758,000		
Costs of Patents	(20,908)	(73,138)	(27,031)	(85,987)
Cash used in investing activities	(21,874)	7,680,334	(26,396)	(83,447)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,805,851)	(16,079,788)	(1,935,034)	35,179,671
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	19,891,245	26,165,182	39,560,789	2,446,084
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$10,085,394	\$10,085,394	\$ 37,625,755	\$37,625,755
CASH AND CASH EQUIVALENTS COMPRISE:				
Cash	\$3,278,767	\$3,278,767	\$2,306,306	\$2,306,306
Term Deposits	6,806,627	6,806,627	35,319,449	35,319,449
	\$10,085,394	\$10,085,394	\$37,625,755	\$37,625,755

See accompanying notes to financial statements

TITAN MEDICAL INC.

Notes to the Unaudited Condensed Interim Financial Statements

Three and Nine Months Ended September 30, 2015

(In U.S. Dollars)

1. DESCRIPTION OF BUSINESS

Nature of Operations:

The Company's business continues to be in the research and 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 nine months ending September 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 November 10, 2015.

(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 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 recoverable 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 September 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 September 30, 2015 is based on level 1, quoted prices (unadjusted).

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three and Nine Months Ended September 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>4,528</u>	<u>-</u>	<u>-</u>	<u>4,528</u>
Balance at September 30, 2015	\$ 70,365	\$ 261,483	\$ 172,601	\$504,449
Amortization & Impairment Losses				
Balance at December 31, 2014	\$ 64,168	\$ 246,886	\$ 172,601	\$483,655
Amortization for the period	<u>1,131</u>	<u>14,597</u>	<u>-</u>	<u>15,728</u>
Balance at September 30, 2015	\$ 65,299	\$ 261,483	\$ 172,601	\$499,383
Net Book Value				
At December 31, 2014	<u>\$ 1,669</u>	<u>\$ 14,597</u>	<u>\$ -</u>	<u>\$ 16,266</u>
At September 30, 2015	<u>\$ 5,066</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,066</u>

4. PATENT RIGHTS

Cost	
Balance at December 31, 2014	\$ 504,488
Additions	<u>73,138</u>
Balance at September 30, 2015	<u>\$ 577,626</u>
Amortization & Impairment Losses	
Balance at December 31, 2014	\$ 157,107
Amortization and other adjustments for the period	<u>11,960</u>
Balance at September 30, 2015	<u>\$ 169,067</u>
Net Book Value	
At December 31, 2014	<u>\$ 347,381</u>
At September 30, 2015	<u>\$ 408,559</u>

TITAN MEDICAL INC.

Notes to the Unaudited Condensed Interim Financial Statements

Three and Nine Months Ended September 30, 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>	102,767,613 (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 August 18, 2015, the Company filed with the securities regulators in Ontario, British Columbia and Alberta, a Final 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. The securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of the sale and set forth in an accompanying prospectus supplement. The Company currently intends to use the net proceeds from the sale of the securities for the Company's research and development of a clinical-grade prototype of its SPORT™ Surgical System, pre-clinical trial and regulatory cost and for working capital and other general corporate purposes.

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, September 30, 2015, 7,501,610 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 September 30, 2015 and September 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 Nine Months Ended September 30, 2015
(In U.S. Dollars)

5. **SHARE CAPITAL** (continued)

	Nine Months Ended September 30, 2015		Nine Months Ended September 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	\$0.66
Granted	701,547	\$1.71	658,491	\$1.91
Exercised	(156,000)	\$0.49	(1,149,779)	\$0.38
Expired	-	\$ -	(75,776)	\$1.90
Balance, ending	<u>2,775,151</u>	\$1.32	<u>2,209,858</u>	\$1.14

The weighted-average remaining contractual life and weighted-average exercise price of options outstanding and of options exercisable as at September 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	50,000	\$0.32	.08	50,000	\$0.32
\$0.56	672,368	\$0.56	2.84	672,368	\$0.56
\$0.83	49,591	\$0.83	2.47	49,591	\$0.83
\$0.96	305,107	\$0.96	3.22	305,107	\$0.96
\$1.27	80,000	\$1.27	0.36	80,000	\$1.27
\$1.39	19,746	\$1.39	4.21	19,746	\$1.39
\$1.39	47,532	\$1.39	1.62	47,532	\$1.39
\$1.46	25,000	\$1.46	0.78	25,000	\$1.46
\$1.49	102,759	\$1.49	1.38	102,759	\$1.49
\$1.51	16,796	\$1.51	4.87	16,796	\$1.51
\$1.66	32,845	\$1.66	0.88	32,845	\$1.66
\$1.67	100,000	\$1.67	.05	100,000	\$1.67
\$1.72	684,751	\$1.72	4.70	207,712	\$1.72
\$1.76	106,096	\$1.76	3.43	106,096	\$1.76
\$1.94	<u>482,560</u>	\$1.94	3.64	<u>262,105</u>	\$1.94
	<u>2,775,151</u>	\$1.32	2.30	<u>2,077,657</u>	\$1.16

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 Nine Months Ended September 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
August 11, 2015, option grants to Consultants	16,796	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)	\$0.71 - \$0.81	\$1.36 - \$1.43
Share price at grant date (CDN)	\$1.51 - \$1.72	\$1.76 - \$1.94
Exercise price (CDN)	\$1.51 - \$1.72	\$1.76 - \$1.94
Expected Volatility	71.83% - 72.46%	98% - 106%
Option Life	3 years	5 years
Expected dividends	nil	nil
Risk-free interest rate (based on government bonds)	0.44 - 66 %	1.54% - 1.67%

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three and Nine Months Ended September 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 September 30, 2015 and September 30, 2014 and changes during the periods then ended.

	<u>September 30, 2015</u>		<u>September 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)	(958,058)	(135,115)
Exercised during the period				
Exercise Price CDN\$1.75				
Expiry December 16, 2016	-	-	(745,500)	(280,368)
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\$2.00				
Expiry June 21, 2016			(456,000)	(167,205)
Exercised during the period				
Exercise Price CDN\$1.85				
Expiry December 10, 2015	<u>-</u>	<u>-</u>	<u>(1,334,100)</u>	<u>(715,039)</u>
Ending Balance	<u>17,923,334</u>	<u>\$6,008,719</u>	<u>18,615,334</u>	<u>\$6,259,096</u>

TITAN MEDICAL INC.
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6. WARRANT LIABILITY

	<u>September 30, 2015</u>		<u>December 31, 2014</u>	
	<u>Number of Warrants</u>	<u>Amount</u>	<u>Number of 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	-	(390,546)	-	(563,268)
Fair value adjustment	-	(443,574)	-	(1,018,666)
Balance, ending	<u>20,664,770</u>	<u>\$2,163,843</u>	<u>20,664,770</u>	<u>\$2,997,963</u>

In addition to the warrants listed above, at September 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 \$43,764,183 available to reduce future income taxes. The non-capital losses expire approximately as follows:

2027	786,557
2028	169,954
2029	186,708
2030	2,003,596
2031	9,423,694
2032	6,517,436
2033	8,856,497
2034	<u>15,819,741</u>
	<u>\$43,764,183</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 September 30, 2015, \$12,751,024 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 September 30, 2015, \$1,717,060 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 \$1,147,500. 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	\$ 80,000
2016	\$ 455,000
2017	\$ 80,000
2018	\$ 5,000
2019	\$ 5,000
2020	\$ 5,000

2021 and thereafter \$5,000 per year

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9. **RELATED PARTY TRANSACTIONS**

During the three months ended September 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 \$242,049 and \$696,239 for the three and nine months ended September 30, 2015 compared to \$214,818 and \$816,799 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 6.18% of the Company.

	September 30, 2015		December 31, 2014	
	BASE	%	BASE	%
John Barker	220,632	0.21	183,632	0.18
Martin Bernholtz	1,380,500	1.34	1,341,500	1.31
Dennis Fowler	73,000	0.07	73,000	0.07
John Hargrove	198,200	0.19	148,200	0.14
Stephen Randall	102,800	0.10	102,800	0.10
Reiza Rayman	4,337,117	4.22	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>6,349,449</u>	<u>6.18</u>	<u>6,373,449</u>	<u>6.22</u>
Common Shares Outstanding	<u>102,767,613</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 October 5, 2015, 50,000 stock options were exercised for proceeds of Cdn \$16,000 and the issuance of 50,000 common shares.

On October 30, 2015 Titan announced that it has signed a Letter Agreement with Longtai Medical Inc. ('Longtai'), a Canadian subsidiary of Ningbo Long Hengtai International Trade Co. Ltd., which is incorporated under the laws of China. Under the terms of the Letter Agreement, Longtai will subscribe for and purchase US\$4,000,000 worth of Common Shares of Titan under a private placement, at a subscription price of CDN\$1.23 per share. The private placement is expected to close on or about November 15, 2015. Titan has granted to Longtai exclusive rights to negotiate with Titan for an exclusive marketing, sales and distribution agreement for Titan's SPORT™ Surgical System in the Asia Pacific region for a period of 183 days commencing at closing. Additionally, Longtai has paid to Titan US\$2,000,000 as a deposit toward the Distributorship Agreement, which shall be repaid to Longtai in the event that the agreement is not entered into within the 183-day period. Concurrently with the signing of the Distributorship Agreement, Longtai has agreed to subscribe for and purchase an additional US\$4,000,000 worth of Common Shares at a share issue price equal to the 5-day VWAP (less a 12.5% discount). If the Distributorship Agreement is signed and the second US\$4,000,000 private placement is completed, Titan shall retain US\$1,400,000 of the Distributorship Deposit and repay US\$600,000 to Longtai. Based on successful negotiations, the Distributorship Agreement will further lead to an additional US\$15,000,000 investment by Longtai. The investment proceeds will be used for the establishment and support of a Titan operation office and facility in the Asia Pacific Region; establishment of a training program for the SPORT system; sales and marketing of the SPORT.

On November 6, 2015 **Titan** announced that it has filed a prospectus supplement to the Company's short form base shelf prospectus dated August 18, 2015, regarding its previously announced public offering of units of the Company. Each Unit shall consist of one common share of the Company and 0.75 of a common share purchase warrant. Each whole Warrant shall entitle the holder thereof to acquire one Share of the Company at a price of CDN\$1.60 for a period of 5 years following the closing of the offering (the "**Closing Date**"). Octagon Capital Corporation (the "**Agent**") and the Company's U.S. placement agent have agreed to sell, on a best efforts agency basis, up to 8,130,081 Units at a price of CDN \$1.23 per Unit for total gross proceeds of up to CDN \$10,000,000 (the "**Offering**"). The Agent has been granted the option to offer for sale additional units (the "**Over-Allotment Units**") at the price issued under the Offering and additional warrants (the "**Over-Allotment Warrants**") at a price of CDN \$0.21 per Over-Allotment Warrant, exercisable in whole or in part at any time on the Closing Date or up to 30 days following the Closing Date, so long as the aggregate number of Over-Allotment Units and Over-Allotment Warrants does not exceed 15% of the number of Units issued under the Offering. The Offering is subject to a number of conditions, including, without limitation, receipt of all regulatory approvals.