

TITAN MEDICAL INC.
Unaudited Condensed Interim Financial Statements
Three and Nine Months Ended September 30, 2016 and 2015

(IN UNITED STATES DOLLARS)

TITAN MEDICAL INC.
Unaudited Condensed Interim Balance Sheets
As at September 30, 2016 and December 31, 2015
(In U.S. Dollars)

	September 30, <u>2016</u>	December 31, <u>2015</u>
ASSETS		
CURRENT		
Cash and cash equivalents	\$7,399,331	\$11,197,573
Amounts receivable	46,794	57,752
Deposits (Note 8)	206,010	1,040,000
Prepaid expenses	<u>40,133</u>	<u>137,905</u>
Total Current Assets	7,692,268	12,433,230
Furniture and Equipment (Note 3)	10,735	4,521
Patent Rights (Note 4)	<u>565,245</u>	<u>448,559</u>
TOTAL ASSETS	<u>\$8,268,248</u>	<u>\$12,886,310</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$2,009,806	\$9,159,829
Warrant liability (Note 2(g) and 6)	2,631,846	2,137,751
Other Liabilities and Charges (Note 5(a))	<u>2,000,000</u>	<u>2,000,000</u>
TOTAL LIABILITIES	<u>6,641,652</u>	<u>13,297,580</u>
SHAREHOLDERS' EQUITY		
Share Capital (Note 5(a))	110,722,842	86,083,419
Contributed Surplus	3,440,576	2,849,061
Warrants (Note 5 (b))	2,166,251	4,044,192
Deficit	<u>(114,703,073)</u>	<u>(93,387,942)</u>
Total Equity	<u>1,626,596</u>	<u>(411,270)</u>
TOTAL LIABILITIES & EQUITY	<u>\$8,268,248</u>	<u>\$12,886,310</u>

Commitments (Note 8)
See accompanying notes to financial statements

Approved on behalf of the Board:

Martin Bernholtz
Director and Chairman

John E. Barker
Director and Interim CEO

TITAN MEDICAL INC.
Unaudited Condensed Interim Statements of Shareholders' Equity and Deficit
For the Periods ended September 30, 2016 and 2015
(In U.S. Dollars)

	Share Capital Number	Share Capital Amount	Contributed Surplus	Warrants	Deficit	Total Equity
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	102,767,613	\$ 73,271,393	\$ 2,765,652	\$ 6,008,719	\$ (80,251,338)	\$ 1,794,426
Balance - December 31, 2015	116,457,486	\$ 86,083,419	\$ 2,849,061	\$ 4,044,192	\$ (93,387,942)	\$ (411,270)
Issued pursuant to agency agreement	47,814,121	24,920,296				24,920,296
Issued private placement	130,839	100,000				100,000
Share issue expense		(2,329,534)				(2,329,534)
Warrants exercised during the period	70,000	63,288				63,288
Warrants expired during the period		1,877,941		(1,877,941)		-
Options exercised during the period	9,000	7,432	(3,825)			3,607
Stock based compensation vested			595,340			595,340
Net and Comprehensive loss for the period					(21,315,131)	(21,315,131)
Balance – September 30, 2016	<u>164,481,446</u>	<u>\$ 110,722,842</u>	<u>\$ 3,440,576</u>	<u>\$ 2,166,251</u>	<u>\$ (114,703,073)</u>	<u>\$ 1,626,596</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, 2016 and 2015
(In U.S. Dollars)

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
REVENUE	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -
EXPENSES				
Amortization	6,271	18,367	4,782	27,688
Consulting fees	160,066	419,923	88,500	241,810
Stock based compensation (Note 5(b))	372,299	595,340	41,384	333,032
Insurance	5,442	16,324	7,269	22,915
Management salaries and fees	397,543	1,207,517	292,076	869,589
Marketing and investor relations	73,753	333,995	69,694	242,484
Office and general	44,851	192,981	93,091	215,134
Professional fees	206,594	403,073	132,872	439,312
Rent	25,463	71,378	(637)	85,094
Research and development	3,429,550	21,527,968	10,694,838	25,110,409
Travel	96,353	359,114	97,916	246,125
Foreign exchange (gain) loss	4,396	334,967	(181,904)	971,079
	4,822,581	25,480,947	11,339,881	28,804,671
FINANCE INCOME (LOSS)				
Interest	1,172	5,438	6,557	84,420
Gain (Loss) on change in fair value of warrant liability (Note 2(g) and 6)	3,277,044	4,623,658	433,738	443,574
Warrant liability issue cost	(115,498)	(463,280)	-	-
NET AND COMPREHENSIVE LOSS FOR THE PERIOD	\$(1,659,863)	\$(21,315,131)	\$(10,899,586)	\$(28,276,677)
BASIC AND DILUTED LOSS PER SHARE	\$(0.01)	\$(0.15)	\$(0.11)	\$(0.28)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES, Basic and Diluted	149,254,997	140,034,694	102,718,146	102,625,202

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, 2016 and 2015
(In U.S. Dollars)

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
OPERATING ACTIVITIES				
Net loss for the period	\$(1,659,863)	\$(21,315,131)	\$(10,899,586)	\$(28,276,677)
Items not involving cash:				
Amortization	6,271	18,367	4,782	27,688
Stock based compensation	372,299	595,340	41,384	333,032
Warrant liability – fair value adjustment	(3,277,044)	(4,623,658)	(433,738)	(443,574)
Warrant liability – foreign exchange adjustment	(29,301)	199,912	(191,705)	(390,546)
Changes in non-cash working capital items:				
Amounts receivable, prepaid expenses and deposits	3,782,977	942,719	(213)	136,083
Accounts payable and accrued liabilities	(5,726,853)	(7,150,023)	1,645,640	4,740,959
Cash used in operating activities	(6,531,514)	(31,332,474)	(9,833,436)	(23,873,035)
FINANCING ACTIVITIES				
Net proceeds from issuance of common shares and warrants	7,147,831	27,675,499	49,459	112,913
Cash provided by financing activities	7,147,831	27,675,499	49,459	112,913
INVESTING ACTIVITIES				
(Increase)/ decrease in furniture and equipment	-	(10,088)	(966)	(4,528)
(Increase)/ decrease in Short-term Investments	-	-	-	7,758,000
Costs of Patents	(24,777)	(131,179)	(20,908)	(73,138)
Cash provided (used) in investing activities	(24,777)	(141,267)	(21,874)	7,680,334
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	591,540	(3,798,242)	(9,805,851)	(16,079,788)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,807,791	11,197,573	19,891,245	26,165,182
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$7,399,331	\$7,399,331	\$10,085,394	\$10,085,394
CASH AND CASH EQUIVALENTS COMPRISE:				
Cash	\$96,805	\$96,805	\$3,278,767	\$3,278,767
Term Deposits	7,302,526	7,302,526	6,806,627	6,806,627
	\$7,399,331	\$7,399,331	\$10,085,394	\$10,085,394

See accompanying notes to financial statements

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, 2016 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 2015 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 2015 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 8, 2016.

(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.

TITAN MEDICAL INC.

Notes to the Unaudited Condensed Interim Financial Statements

Three and Nine Months Ended September 30, 2016

(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 measurement of stock based compensation and the fair value estimate of the initial measurement of new warrant liabilities. 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) 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

(d) 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.

(e) Impairment of long-lived assets

The Company reviews computer equipment, furniture and fixtures, 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.

(f) 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 net and comprehensive loss. Monetary period end balances are converted to U.S. dollars at the rate in effect at period end date as per the Bank of Canada.

TITAN MEDICAL INC.

Notes to the Unaudited Condensed Interim Financial Statements

Three and Nine Months Ended September 30, 2016

(In U.S. Dollars)

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 Net and Comprehensive Loss.

(g) Warrant Liability

In accordance with IAS 32, because the exercise prices of new warrants issued, 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, 2016, the Warrant Liability was adjusted to fair value measured at the market price of the listed warrants.

(h) 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, 2016 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, 2016
(In U.S. Dollars)

3. FURNITURE AND EQUIPMENT

	Computer Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Cost				
Balance at December 31, 2015	\$ 70,365	\$ 261,483	\$ 172,601	\$504,449
Additions (disposals)	<u>10,088</u>	-	-	<u>10,088</u>
Balance at September 30, 2016	\$ 80,453	\$ 261,483	\$ 172,601	\$514,537
Amortization & Impairment Losses				
Balance at December 31, 2015	\$ 65,844	\$ 261,483	\$ 172,601	\$499,928
Amortization for the period	<u>3,874</u>	-	-	<u>3,874</u>
Balance at September 30, 2016	\$ 69,718	\$ 261,483	\$ 172,601	\$503,802
Net Book Value				
At December 31, 2015	<u>\$ 4,521</u>	\$ -	\$ -	<u>\$ 4,521</u>
At September 30, 2016	<u>\$ 10,735</u>	\$ -	\$ -	<u>\$ 10,735</u>

4. PATENT RIGHTS

Cost	
Balance at December 31, 2015	\$ 621,782
Additions	<u>131,179</u>
Balance at September 30, 2016	<u>\$ 752,961</u>
Amortization & Impairment Losses	
Balance at December 31, 2015	\$ 173,223
Amortization	<u>14,493</u>
Balance at September 30, 2016	<u>\$ 187,716</u>
Net Book Value	
At December 31, 2015	<u>\$ 448,559</u>
At September 30, 2016	<u>\$ 565,245</u>

TITAN MEDICAL INC.

Notes to the Unaudited Condensed Interim Financial Statements

Three and Nine Months Ended September 30, 2016

(In U.S. Dollars)

5. SHARE CAPITAL

a) <i>Authorized:</i>	unlimited number of common shares, no par value
<i>Issued:</i>	164,481,446 (December 31, 2015: 116,457,486)

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

On September 20, 2016 Titan completed an offering of securities pursuant to an agency agreement dated September 13, 2016 between the Company, and Bloom Burton & Co. Limited and Echelon Wealth Partners Inc. (the "Agents"). The Company sold 17,083,333 units under the Offering at a price of CDN \$0.60 per Unit for gross proceeds of \$7,749,000 (\$6,979,014 net of closing costs including cash commission of \$528,668 paid in accordance with the terms of the agency agreement). Each unit comprised of one common share of Titan and one warrant. Each whole warrant entitles its holder to purchase one additional common share of Titan for CDN \$0.75 and will expire September 20, 2021. The warrants were valued at \$1,162,350 using a comparable warrant quoted in an active market, adjusted for differences in the terms of warrant and the balance of \$6,586,650 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 1,165,494 units. Each broker warrant entitles the holder thereof to acquire one unit of the Company at the price of CDN\$0.60 for a period of 24 months following the closing date. Each unit consists one common share of the Company and one common share purchase warrant. Each purchase warrant entitles the holder thereof to acquire one Share of the Company at an exercise price of CDN \$0.75 which expire September 20, 2021.

On April 14, 2016 the over-allotment option to the Company's March 31, 2016 offering of 15,054,940 units at a price of CDN \$1.00 per Unit was exercised in full and the Company sold an additional 2,258,241 Units at the Offering Price of CDN \$1.00 for additional gross proceeds of \$1,759,396 (\$1,633,407 net of closing costs including commission of \$123,158 paid in accordance with the terms of the agency agreement). Each unit comprised of one common share of Titan and one warrant. Each whole warrant entitles its holder to purchase one additional common share of Titan for CDN\$1.20 and will expire April 14, 2021. The warrants were valued at \$290,300 using a comparable warrant quoted in an active market, adjusted for differences in the terms of warrant and the balance of \$1,469,096 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 158,076 units. Each broker warrant entitles the holder thereof to acquire one unit of the Company at the price of CDN\$1.00 for a period of 24 months following the closing date. Each unit consists one common share of the Company and one common share purchase warrant. Each purchase warrant entitles the holder thereof to acquire one Share of the Company at an exercise price of CDN \$1.20 which expire April 14, 2021.

On March 31, 2016 Titan completed an offering of securities pursuant to an agency agreement dated March 24, 2016 between the Company and Bloom Burton & Co. Limited (the "Agent"). The Company sold 15,054,940 units under the Offering price of CDN\$1.00 per Unit for gross proceeds of approximately \$11,607,359 (\$10,448,982 net of closing costs including cash commission of \$796,324 paid in accordance with the terms of the agency agreement). Each unit comprised of one common share of Titan and one warrant. Each whole warrant entitles its holder to purchase one additional common share of Titan for CDN\$1.20 and will expire March 31, 2021. The warrants were valued at \$1,741,104 using a comparable warrant quoted in an active market, adjusted for differences in the terms of warrant and the balance of \$9,866,255 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 1,032,845 units. Each broker warrant entitles the holder thereof to acquire one unit of the Company at the price of CDN\$1.00 for a period of 24 months following the closing date. Each unit consists of one common share of the Company and one common share purchase warrant. Each purchase warrant entitles the holder thereof to acquire one Share of the Company at an exercise price of CDN \$1.20 which expire March 31, 2021.

On February 23, 2016 the over-allotment option in connection with the February 12, 2016 completed public offering of 11,670,818 units had been exercised in full. The company sold an additional 1,746,789 units at the offering price of CDN

TITAN MEDICAL INC.

Notes to the Unaudited Condensed Interim Financial Statements

Three and Nine Months Ended September 30, 2016

(In U.S. Dollars)

5. SHARE CAPITAL (continued)

\$0.90 per Unit for gross proceeds to Titan of approximately \$1,139,937 (\$1,029,710 net of closing costs including cash commission of \$79,796 paid in accordance with the terms of the agency agreement). Each unit consists of one common share of the Company and one common share purchase warrant. Each whole warrant entitles the holder thereof to acquire one Share of the Company at an exercise price of CDN \$1.00 which expire February 23, 2021. The warrants were valued at \$215,321 using a comparable warrant quoted in an active market, adjusted for differences in the terms of warrant and the balance of \$924,616 was allocated to common shares.

On February 12, 2016 Titan completed an offering of securities made pursuant to an agency agreement dated February 9, 2016 between the Company and Bloom Burton & Co. Limited (the "Agent"). The Company sold 11,670,818 units under the Offering at a price of CDN \$0.90 per Unit for gross proceeds of approximately \$7,592,101 (\$6,844,746 net of closing costs including cash commission of \$516,622 paid in accordance with the terms of the agency agreement). Each Unit consists of one common share of the Company and one common share purchase warrant. Each whole warrant entitles the holder thereof to acquire one Share of the Company at an exercise price of CDN \$1.00 which expire February 12, 2021. The warrants were valued at \$1,518,420 using a comparable warrant quoted in an active market, adjusted for differences in the terms of warrant and the balance of \$6,073,680 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 916,443 units. Each broker warrant entitles the holder thereof to acquire one unit of the Company at the price of CDN\$0.90 for a period of 24 months following the closing date. Each unit consists of one common share of the Company and one common share purchase warrant. Each purchase warrant entitles the holder to acquire one common share of the Company at an exercise price of CDN\$1.00 for a period of 60 months from the date of closing.

On November 23, 2015 Titan closed a private placement of 4,290,280 common shares of Titan at a subscription price of CDN \$1.23 per common share for gross proceeds of \$4,000,000 with Longtai Medical Inc. Longtai is the Canadian subsidiary of Ningbo Long Hengtai International Trade Co. Ltd., a corporation incorporated under the laws of China with annual sales exceeding \$100,000,000. Longtai is an importer and distributor of high end medical devices for multinational companies.

Under the Agreement Titan has granted to Longtai exclusive rights to negotiate 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. Longtai has paid to Titan \$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. On August 24, 2016 the parties have agreed to modify their previous three month extension to monthly progress reviews. Longtai will concurrently with the signing of the Distributorship Agreement, subscribe for and purchase an additional \$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 \$4,000,000 private placement is completed, Titan will retain \$1,400,000 of the Distributorship Deposit and repay \$600,000 to Longtai.

On November 16, 2015 Titan completed an offering of securities pursuant to an agency agreement dated November 6, 2015 between the Company and Octagon Capital Corporation (the "Agent"). The offering consisted of 8,130,081 units and full over-allotment of 1,219,512 units for a total of 9,349,593 units at a price of CDN\$1.23 per unit for gross proceeds of \$8,611,901 (\$7,629,360 net of closing costs including cash commission of \$586,660 paid in accordance with the terms of the agency agreement). Each unit comprised of one common share of Titan and 0.75 of a common share purchase warrant. Each whole warrant entitles its holder to purchase one additional common share of Titan for CDN\$1.60 which will expire November 16, 2020. The warrants were valued at \$770,177 using a comparable warrant quoted in an active market, adjusted for differences in the terms of warrant and the balance of \$7,841,724 was allocated to common shares.

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, 2016, 9,166,210 common shares (December 31, 2015: 8,747,986) 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, 2016 and September 30, 2015 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, 2016
(In U.S. Dollars)

5. **SHARE CAPITAL** (continued)

	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	<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	2,897,763	\$1.20	2,229,604	\$1.14
Granted	4,660,117	\$1.01	701,547	\$1.71
Exercised	(9,000)	\$0.56	(156,000)	\$0.49
Expired/Forfeited	<u>(266,945)</u>	\$1.47	-	-
Balance, ending	<u>7,281,935</u>	\$1.11	<u>2,775,151</u>	\$1.32

The weighted-average remaining contractual life and weighted-average exercise price of options outstanding and of options exercisable as at September 30, 2016 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>
\$0.56	663,368	\$0.56	1.84	663,368	\$0.56
\$0.83	49,591	\$0.83	1.47	49,591	\$0.83
\$0.96	305,107	\$0.96	2.22	305,107	\$0.96
\$1.00	4,015,825	\$1.00	4.75	1,129,206	\$1.00
\$1.02	233,045	\$1.02	4.23	82,691	\$1.02
\$1.08	644,292	\$1.08	4.33	24,300	\$1.08
\$1.39	19,746	\$1.39	3.21	19,746	\$1.39
\$1.39	47,532	\$1.39	0.62	47,532	\$1.39
\$1.49	102,759	\$1.49	0.38	102,759	\$1.49
\$1.51	16,796	\$1.51	3.87	16,796	\$1.51
\$1.72	618,496	\$1.72	3.69	366,725	\$1.72
\$1.76	106,096	\$1.76	2.43	106,096	\$1.76
\$1.94	<u>459,282</u>	\$1.94	2.64	<u>372,332</u>	\$1.94
	<u>7,281,935</u>	\$1.11	2.74	<u>3,286,249</u>	\$1.14

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, 2016

(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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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
December 23, 2015, options granted to Directors, Officers and Consultants	82,691	immediately	5 years
December 23, 2015, option grants to Employees	189,920	Vest as to 1/3 of the total number of Options granted, every year from Option Date	5 years
January 27, 2016, option grants to Consultants	24,300	immediately	5 years
January 27, 2016, option grants to Employees	619,992	Vest as to 1/3 of the total number of Options granted, every year from Option Date	5 years
August 24, 2016, options granted to Directors and Consultants	1,129,206	immediately	5 years
August 24, 2016, options granted to Employees	2,886,619	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>2016</u>	<u>2015</u>
Fair Value at grant date (CDN)	\$0.284 - \$0.516	\$0.71 - \$0.81
Share price at grant date (CDN)	\$0.679 - \$1.08	\$1.51 - \$1.72
Exercise price (CDN)	\$1.00 - \$1.08	\$1.51 - \$1.72
Expected Volatility	73.34% - 79.67%	71.83% - 72.46%
Option Life	3 years	3 years
Expected dividends	nil	nil
Risk-free interest rate (based on government bonds)	0.44% - 0.57%	0.44% - 0.66%

TITAN MEDICAL INC.**Notes to the Unaudited Condensed Interim Financial Statements**

Three and Nine Months Ended September 30, 2016

(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, 2016 and September 30, 2015 and changes during the periods then ended.

	<u>September 30, 2016</u>		<u>September 30, 2015</u>	
	<u>Number of Warrants</u>	<u>Amount</u>	<u>Number of Warrants</u>	<u>Amount</u>
Opening Balance	14,257,434	\$4,044,192	17,963,334	\$6,014,360
Exercised during the period				
Exercise Price of CDN\$1.25				
Expiry March 13, 2018	-	-	(40,000)	(5,641)
Expired during the period				
Exercise Price of CDN\$2.00				
Expiry June 21, 2016	<u>(5,121,500)</u>	<u>(1,877,941)</u>		
Ending Balance	<u>9,135,934</u>	<u>\$2,166,251</u>	<u>17,923,334</u>	<u>\$6,008,719</u>

6. WARRANT LIABILITY

	<u>September 30, 2016</u>		<u>December 31, 2015</u>	
	<u>Number of Warrants</u>	<u>Amount</u>	<u>Number of Warrants</u>	<u>Amount</u>
Balance, beginning	27,676,965	\$2,137,751	20,664,770	\$2,997,963
Issue of warrants expiring, November 16, 2020			7,012,195	770,177
Issue of warrants expiring, February 12, 2021	11,670,818	1,518,420		
Issue of warrants expiring, February 23, 2021	1,746,789	215,321		
Issue of warrants expiring, March 31, 2021	15,054,940	1,741,104		
Issue of warrants expiring April 14, 2021	2,258,241	290,300		
Issue of warrants expiring September 20, 2021	17,083,333	1,162,350		
Warrants exercised during the period	(70,000)	(9,654)	-	-
Foreign exchange adjustment	-	199,912	-	(487,513)
Fair value adjustment	<u>-</u>	<u>(4,623,658)</u>	<u>-</u>	<u>(1,142,876)</u>
Balance, ending	<u>75,421,086</u>	<u>2,631,846</u>	<u>27,676,965</u>	<u>\$2,137,751</u>

In addition to the warrants listed above, at September 30, 2016, the Company has issued and outstanding, 3,272,858 broker unit warrants.

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three and Nine Months Ended September 30, 2016
(In U.S. Dollars)

7. INCOME TAXES

Losses carried forward

The Company has non-capital losses of approximately \$91,011,242 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	12,735,836
2032	6,517,436
2033	8,856,497
2034	15,819,741
2035	<u>43,934,918</u>
	<u>\$91,011,242</u>

The Company has accumulated Qualifying Research and Development expenses of \$6,276,334 as a result of prior year's research and development. These expenditures may be carried forward indefinitely and used to reduce taxable income in future years.

As a result of a recent Canada Revenue Agency (CRA) audit completed in the second quarter, Titan's 2011 Amadeus SR&ED claim, the carrying amounts for losses carried forward and the qualifying SR&ED expenditures has been revised from \$87,699,101 to \$91,011,242 and \$9,439,430 to \$6,276,334 respectfully. The amounts regarding the foreign content made in the claim has been disallowed by CRA. Titan is appealing this decision.

8. COMMITMENTS

Effective July 15, 2011, the Company entered into a lease for premises in Ancaster, Ontario for its research and development program.

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 additional space previously leased in Ancaster, Ontario 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 the initial space leased on July 15, 2011. The Company now has only the space sublet August 22, 2013.

Effective January 26, 2016 the Company entered into a twelve month lease at its corporate office located at 170 University Avenue, Toronto Ontario, at an annual rental of CDN \$116,875.

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, 2016, \$18,511,847 in purchase orders remain outstanding however, subsequent to September 30, 2016, these purchase orders were cancelled and will be replaced by new purchase orders that more appropriately reflect the rate of development ramp up by this supplier. The Company also has on deposit with this same U.S. supplier \$206,010 to be applied against future invoices.

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, 2016, \$435,980 in purchase orders remain outstanding.

TITAN MEDICAL INC.

Notes to the Unaudited Condensed Interim Financial Statements

Three and Nine Months Ended September 30, 2016

(In U.S. Dollars)

8. **COMMITMENTS** (continued)

The Company has entered into a number of licensing agreements with suppliers and Universities that will require payments to be made to them, in future years, based on the achievement, by the Company, of certain milestones which could total up to \$897,500. 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% per royalty agreement.

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 2016 and beyond.

2017	\$ 80,000
2018	\$ 5,000
2019	\$ 5,000
2020	\$ 205,000
2021	\$ 180,000
2022 and thereafter	\$5,000 per year

9. **RELATED PARTY TRANSACTIONS**

During the three and nine months ended September 30, 2016, 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 \$187,333 and \$682,317 for the three and nine months ended September 30, 2016 compared to \$242,049 and \$696,239 for the same period in 2015.

In the second quarter of 2015, 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 (paid)
\$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 former 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.

During the period, an individual related to a senior executive, provided consulting services in support of marketing efforts for the European market. Monthly compensation of \$12,360 plus reimbursement of appropriate expenses was paid to the individual.

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three and Nine Months Ended September 30, 2016
(In U.S. Dollars)

9. **RELATED PARTY TRANSACTIONS** (continued)

Officers and Directors of the Company control approximately 4.03% of the Company.

	September 30, 2016		December 31, 2015	
	BASE	%	BASE	%
John Barker	250,632	0.15	230,632	0.20
Martin Bernholtz	1,571,500	0.96	1,380,500	1.19
Dennis Fowler	0	0.00	73,000	0.06
John Hargrove	298,200	0.18	298,200	0.26
Stephen Randall	102,800	0.06	102,800	0.09
Reiza Rayman	4,357,117	2.65	4,357,117	3.74
John Valvo	25,000	0.02	25,000	0.02
Bruce Wolff	<u>17,552</u>	<u>0.01</u>	<u>17,552</u>	<u>0.01</u>
TOTAL	<u>6,622,801</u>	<u>4.03</u>	<u>6,484,801</u>	<u>5.57</u>
Common Shares Outstanding	<u>164,481,446</u>	<u>100%</u>	<u>116,457,486</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. **SUBSEQUENT EVENTS**

On October 27, 2016 the over-allotment option to the Company's September 20, 2016 offering of 17,083,333 units at a price of CDN \$0.60 was partially exercised and the Company sold an additional 2,030,000 Units at the Offering Price of CDN \$0.60 for additional gross proceed of \$913,500 (\$848,575 net of closing costs including commission of \$63,945 paid in accordance with the terms of the agency agreement). Each unit comprised of one common share of Titan and one warrant. Each whole warrant entitles its holder to purchase one additional common share of Titan for CDN \$0.75 and will expire October 27, 2021. The warrants were valued at \$122,774 using a comparable warrant quoted in an active market, adjusted for differences in the terms of warrants and the balance of \$790,726 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 142,100 units. Each broker warrant entitles the holder thereof to acquire one unit of the Company at the price of CDN \$0.60 for a period of 24 months following the closing date. Each unit consists one common share of the Company and one warrant. Each whole warrant entitles the holder thereof to acquire one Share of the Company at an exercise price of CDN \$0.75 which expire October 27, 2021.

On October 14, 2016 the remaining \$100,000 option fee was paid regarding the exclusive license agreement with a Company that has developed a Patent for Markerless Tracking of Robotic Surgical Tools.