

TITAN MEDICAL INC.
Unaudited Condensed Interim Financial Statements
Three Months Ended March 31, 2012 and 2011

TITAN MEDICAL INC.
Unaudited Condensed Balance Sheets
As at March 31, 2012 and December 31, 2011

	March 31, <u>2012</u>	December 31, <u>2011</u>
ASSETS		
CURRENT		
Cash and cash equivalents	\$8,023,102	\$9,738,822
Amounts receivable	325,237	275,470
Deposits	531,147	703,886
Prepaid expenses	<u>62,461</u>	<u>70,497</u>
Total Current Assets	8,941,947	10,788,675
Furniture and Equipment (Note 3)	416,831	366,785
Patent Rights (Note 4)	<u>191,931</u>	<u>194,935</u>
	<u>\$9,550,709</u>	<u>\$11,350,395</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	<u>\$871,903</u>	<u>\$2,007,265</u>
SHAREHOLDERS' EQUITY		
Share Capital (Note 5(a))	26,484,714	24,492,101
Contributed Surplus	1,802,200	1,747,497
Warrants (Note 5 (b))	7,593,119	6,977,225
Deficit	<u>(27,201,227)</u>	<u>(23,873,693)</u>
Total Equity	<u>8,678,806</u>	<u>9,343,130</u>
TOTAL LIABILITIES & EQUITY	<u>\$9,550,709</u>	<u>\$11,350,395</u>

Commitments (Note 6)
See accompanying notes to financial statements

Approved on behalf of the Board:

Craig Leon
Director

Martin Bernholtz
Director

TITAN MEDICAL INC.
Unaudited Condensed Interim Statements of Shareholders' Equity and Deficit
For the Periods ended March 31, 2011 and 2012

	Share Capital Number	Share Capital Amount	Contributed Surplus	Warrants	Deficit	Total Equity
Balance - December 31, 2010	50,051,571	\$ 12,540,146	\$ 1,426,764	\$ 3,009,823	\$ (7,746,164)	\$ 9,230,569
Warrants exercised during the period	110,024	57,290		(8,746)		
Stock based compensation expense			134,491			
Net and Comprehensive loss for the period					(2,112,045)	
Balance - March 31, 2011	50,161,595	\$ 12,597,436	\$ 1,561,255	\$ 3,001,077	\$ (9,858,209)	\$ 7,301,559
Balance - December 31, 2011	62,315,337	\$ 24,492,101	\$ 1,747,497	\$ 6,977,225	\$(23,873,693)	\$ 9,343,130
Issued pursuant to agency agreement	1,986,755	3,000,000				
Share issue expense		(444,968)				
Warrants issued during the period		(615,894)		615,894		
Options exercised	90,000	53,475	(22,275)			
Stock based compensation expense			76,978			
Net and Comprehensive loss for the period					(3,327,534)	
Balance - March 31, 2012	64,392,092	\$ 26,484,714	\$ 1,802,200	\$ 7,593,119	\$(27,201,227)	\$ 8,678,806

See accompanying notes to financial statements.

TITAN MEDICAL INC.
Unaudited Condensed Interim Statements of Operations
For the Three Months ended March 31, 2012 and 2011

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
REVENUE	\$ _____ -	\$ _____ -
EXPENSES		
Amortization	32,546	15,552
Consulting fees	52,739	41,187
Stock based compensation (Note 5(b))	76,978	134,491
Insurance	10,619	8,571
Management salaries and fees	527,396	222,784
Marketing and investor relations	53,736	56,813
Office and general	172,363	58,707
Professional fees	98,358	119,204
Rent	35,339	20,461
Research and development	2,190,074	1,423,320
Travel	102,278	28,359
	3,352,426	2,129,449
OTHER INCOME		
Interest	24,892	17,404
NET AND COMPREHENSIVE LOSS FOR THE PERIOD	\$(3,327,534)	\$(2,112,045)
BASIC AND DILUTED LOSS PER SHARE	\$(0.05)	\$(0.04)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES, Basic and Diluted	62,690,555	50,142,654

See accompanying notes to financial statements

TITAN MEDICAL INC.
Unaudited Condensed Interim Statements of Cash Flows
For the Three Months ended March 31, 2012 and 2011

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
OPERATING ACTIVITIES		
Net loss for the period	\$(3,327,534)	\$(2,112,045)
Items not involving cash:		
Amortization	32,546	15,552
Stock based compensation	76,978	134,491
Changes in non-cash working capital items		
Amounts receivable, prepaid expenses and deposits	131,008	(212,847)
Accounts payable and accrued liabilities	(1,135,362)	343,034
Cash used in operating activities	(4,222,364)	(1,831,815)
FINANCING ACTIVITIES		
Net proceeds from issuance of common shares and warrants	2,586,232	48,544
Cash provided by financing activities	2,586,232	48,544
INVESTING ACTIVITIES		
Purchase of Furniture and Equipment	(76,531)	(20,615)
Costs of Patents	(3,057)	-
Cash used in investing activities	(79,588)	(20,615)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,715,720)	(1,803,886)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,738,822	9,614,798
CASH AND CASH EQUIVALENTS, END OF PERIOD	8,023,102	\$7,810,912
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash	221,479	\$309,175
Term Deposits	7,801,623	7,501,737
	\$8,023,102	\$7,810,912

See accompanying notes to financial statements

1. DESCRIPTION OF BUSINESS

Basis of Preparation:

(a) Statement of Compliance

These condensed interim financial statements for the three months ending March 31, 2012 have been prepared in accordance with IAS34 Interim Financial Reporting.

These condensed interim financial statements should be read in conjunction with the Company's 2011 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 2011 annual financial statements except for income tax expense which is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

(b) Basis of Measurement

These condensed interim financial statements have been prepared on the historical cost basis except for the following items.

- financial instruments at amortized cost
- stock-based compensation amounts are measured at fair value

(c) Functional and Presentation Currency

These condensed interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

The condensed interim financial statements were authorized for issue by the Board of Directors on May 15, 2012.

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 research and development stage to commercialization stage. The completion of these latter stages will be subject to the Company receiving additional funding in the future.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates and Judgements

The preparation of condensed interim financial statements in conformity with IFRS 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, the completeness of accounts payable and accrued liabilities, measurement of stock based compensation and the valuation of future income tax assets. While management believes that the estimates and assumptions are reasonable, actual results may differ.

The Black-Scholes model used by Titan to determine fair values of stock options 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

TITAN MEDICAL INC.

Notes to the Unaudited Condensed Interim Financial Statements

Three Months Ended March 31, 2012 and December 31, 2011

future stock price volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards, Amendments and Interpretations Not Yet Effective

Following is a listing of amendments, revisions and new IFRSs, which have been issued but are not effective until annual periods beginning after January 1, 2012 and which have not been early adopted in these financial statements. These items are not expected to have an effect on the Company's future results and financial position.

IFRS 9 Financial Instruments, to replace IAS 39 and IFRIC 9, effective for annual periods beginning on or after January 1, 2015

IFRS 11 Joint arrangements, to replace IAS 31 and SIC-13

IFRS 12 Disclosure of Interests in other Entities, to replace disclosure requirements in IAS 27, IAS 28 and IAS 31

IFRS 13 Fair Value Measurement

IAS 1 Presentation of Financial Statements, amendments regarding Presentation of Items of Other Comprehensive Income

IAS 27 Separate Financial Statements

IAS 28 Investments in Associates and Joint Ventures

TITAN MEDICAL INC.
Notes to the Unaudited Condensed Interim Financial Statements
Three Months Ended March 31, 2012 and December 31, 2011

3. FURNITURE AND EQUIPMENT

	Computer Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Cost				
Balance at December 31, 2011	\$67,089	\$218,813	\$171,503	\$457,405
Additions	<u>1,110</u>	<u>65,395</u>	<u>10,026</u>	<u>76,531</u>
Balance at March 31, 2012	<u>\$68,199</u>	<u>\$284,208</u>	<u>\$181,529</u>	<u>\$533,936</u>
Amortization & Impairment Losses				
Balance at December 31, 2011	\$20,928	\$42,958	\$26,734	\$90,620
Amortization for the period	5,620	15,516	5,349	26,485
Impairment loss	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Balance at March 31, 2012	<u>\$26,548</u>	<u>\$58,474</u>	<u>\$32,083</u>	<u>\$117,105</u>
Net Book Value				
At December 31, 2011	<u>\$46,161</u>	<u>\$175,855</u>	<u>\$144,769</u>	<u>\$366,785</u>
At March 31, 2012	<u>\$41,651</u>	<u>\$225,734</u>	<u>\$149,446</u>	<u>\$416,831</u>

4. PATENT RIGHTS

Cost	
Balance at December 31, 2011	\$320,474
Additions	<u>3,057</u>
Balance at March 31, 2012	<u>\$323,531</u>
Amortization & Impairment Losses	
Balance at December 31, 2012	\$125,539
Amortization for the period	6,061
Impairment loss	<u>0</u>
Balance at March 31, 2012	<u>\$131,600</u>
Net Book Value	
At December 31, 2011	<u>\$194,935</u>
At March 31, 2012	<u>\$191,931</u>

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5. SHARE CAPITAL

- a) Authorized:* unlimited number of common shares, no par value
Issued: 64,392,092 (December 31, 2011: 62,315,337)

On March 8, 2012 Titan completed an offering of securities pursuant to an agency agreement. The offer consisted of 1,986,755 units at \$1.51 for gross proceeds of \$3,000,000 (\$2,555,032 net of closing costs including 7% cash commission of \$210,000 paid in accordance with the terms of the agency agreement). Each unit comprised one common share of Titan and one warrant. Each warrant entitles its holder to purchase one additional common share of Titan for \$1.77 and will expire March 14, 2017. The warrants were valued at \$615,894 using a proportionate fair value method and the balance of \$2,384,106 was allocated to common shares.

Pursuant to the agency agreement, in addition to the cash commission paid to the Agent, compensation warrants (“Broker Warrants”) to purchase 139,073 common shares at a price of \$1.77 per share for a period of 24 months following the closing date. As at March 31, 2012 no Broker Warrants have been exercised by the Agent.

Held in escrow

All shares previously held in escrow were released from escrow by July 29, 2011.

b) Warrants, Stock Options and Compensation Options

Subject to shareholder approval, Titan has reserved and set aside up to 10% of the issued and outstanding shares of Titan for granting of options to employees, officers, consultants and advisers. At, March 31, 2012, 3,169,814 common shares (December 31, 2011: 3,349,130) 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, 2012 and December 31, 2011 and changes during the periods ended on those dates is presented in the following table:

	Three Months Ended March 31, 2012		Year Ended December 31, 2011	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Outstanding, beginning	2,882,404	\$ 0.47	3,220,277	\$ 0.36
Granted	190,316	1.49	282,845	1.40
Exercised	90,000	0.35	(620,718)	0.31
Expired	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Balance, ending	<u>2,982,720</u>	<u>\$ 0.54</u>	<u>2,882,404</u>	<u>\$ 0.47</u>

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5. **SHARE CAPITAL** (continued)

The weighted-average remaining contractual life and weighted-average exercise price of options outstanding and of options exercisable as at March 31, 2012 are as follows:

Exercise price	Options Outstanding			Options Exercisable	
	Number outstanding	Weighted-average exercise price	Weighted-average remaining contractual life (years)	Number exercisable	Weighted-average exercise price
\$0.24	628,139	\$0.24	2.3	628,139	\$0.24
\$0.30	892,500	\$0.30	1.9	742,500	\$0.30
\$0.31	560,420	\$0.31	1.3	560,420	\$0.31
\$0.32	163,500	\$0.32	3.3	163,500	\$0.32
\$0.64	115,000	\$0.64	3.3	115,000	\$0.64
\$0.68	50,000	\$0.68	3.4	50,000	\$0.68
\$1.27	160,000	\$1.27	3.8	160,000	\$1.27
\$1.46	25,000	\$1.46	4.3	12,500	\$1.46
\$1.49	190,316	\$1.49	4.9	0	\$1.49
\$1.58	65,000	\$1.58	4.3	32,500	\$1.58
\$1.66	32,845	\$1.66	4.4	32,845	\$1.66
\$1.67	<u>100,000</u>	<u>\$1.67</u>	<u>3.5</u>	<u>100,000</u>	<u>\$1.67</u>
	<u>2,982,720</u>	<u>\$0.54</u>	<u>3.3</u>	<u>2,597,404</u>	<u>\$0.46</u>

Options are granted to Directors, officers, employees and consultants at various times. Options are to be settled by physical delivery of shares.

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

Grant date/Person entitled	Number of Options	Vesting Conditions	Contractual life of Options
February 14, 2012, option grants to key employees	<u>190,316</u>	25% every three months from date of option	5 years

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5. **SHARE CAPITAL** (continued)

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 2012
Fair Value at grant date	\$1.26
Share price at grant date	\$1.49
Exercise price	\$1.49
Expected Volatility	126%
Option Life	5 years
Expected dividends	nil
Risk-free interest rate (based on government bonds)	1.41%

The following is a summary of outstanding warrants as at March 31, 2012 and December 31, 2011 and changes during the periods then ended.

	Number of Warrants March 31, 2012	Amount	Number of Warrants December 31, 2011	Amount
Opening Balance	15,457,500	\$6,977,225	6,004,988	\$3,009,823
Issued June 2011 Exercise Price of \$2.00 Expires June 2016	-	-	5,577,500	2,175,225
Exercised during 2011 at \$0.48	-	-	(1,004,988)	(159,823)
Issued December 2011 Exercise price of \$1.75 Expires December 2016	-	-	4,880,000	1,952,000
Issued March 8, 2012 Exercise Price of \$1.77 Expires December, 2017	<u>1,986,755</u>	<u>615,894</u>	<u>-</u>	<u>-</u>
Ending Balance	<u>17,444,255</u>	<u>\$7,593,119</u>	<u>15,457,500</u>	<u>\$6,977,225</u>

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

Three Months Ended March 31, 2012 and December 31, 2011

6. COMMITMENTS

Effective April 15, 2010 the company entered into an additional lease in Ancaster to be used for the Amadeus Robotic Surgical Platform research and development program. This lease is for a term of 36 months at \$5,912 per month.

Effective August 1, 2011, the Company entered into a lease for additional premises in Ancaster, for its research and development program. This lease is for a term of 7.5 years. Monthly rent for the first 5 years is \$7,463 and for the remaining 2.5 years is \$8,210, plus HST. The initial leased space for research and development is now redundant. The space has been sublet for the balance of the term.

Effective February 1, 2012, the Company has 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 March 1, 2012, the Company has relocated its corporate office within Toronto. The new space occupies 1,000 square feet and is on a month to month basis at an annual rental of \$39,000 per year.

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 Amadeus™. These agreements require Titan to make periodic payments in 2012 and beyond.

2013	\$ 64,000
2014	\$ 77,500
2015	\$ 80,000
2016	\$ 255,000
2017 and thereafter	\$ 485,000

7. RELATED PARTY TRANSACTIONS

During the quarter ended March 31, 2012, transactions between the Company and directors, officers and other related parties were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Officers and Directors of the Company control approximately 16.22% of the Company.

	March 31, 2012		December 31, 2011	
	BASE	%	BASE	%
John Barker	74,000	0.11	74,000	0.12
Martin Bernholtz	1,291,500	2.01	1,291,500	2.07
Craig Leon	4,202,411	6.53	4,202,411	6.74
Stephen Randall	25,600	0.04	25,600	0.04
Reiza Rayman	<u>4,848,377</u>	<u>7.53</u>	<u>4,848,377</u>	<u>7.78</u>
TOTAL	<u>10,441,888</u>	<u>16.22</u>	<u>10,441,888</u>	<u>16.75</u>
Common Shares Outstanding	<u>64,392,092</u>	<u>100%</u>	<u>62,315,337</u>	<u>100%</u>

TITAN MEDICAL INC.

Notes to the Unaudited Condensed Interim Financial Statements

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8. SEGMENTED REPORTING

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

9. EVENTS AFTER THE REPORTING DATE

On April 23, 2012, the Company signed a sponsored research agreement with Vanderbilt University (“Vanderbilt”), at a cost of \$40,000, whereby Vanderbilt will perform a number of test procedures on Titan’s previously announced single port robot, the Insertable Robotic Effector Platform (“IREP”).

On May 2, 2012, 20,000 options were exercised at \$0.64 for proceeds of \$12,800 and the issuance of 20,000 common shares.