



# Management's Discussion and Analysis

Form 51-102F2

For the Years ended December 31, 2007 and 2006

**Year End  
2007**

## FORM 51-102F1: MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis covers the audited consolidated financial statements for the years ended December 31, 2007 and 2006.

The Management's discussion and analysis ("MD&A") of financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2007 as well as the audited consolidated financial statements and notes thereto and the MD&A for the fiscal year ended December 31, 2006 (collectively known as the "Financial Statements").

The following discussion contains forward-looking statements that are based on currently available information and, therefore, involve risk and uncertainties. The predictions described in these statements may not materialize if management's current expectations regarding the Company's future performance prove incorrect. Results could also be affected by, but not limited to, operating risks described herein.

All financial information is prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and is expressed in Canadian dollars.

Additional information regarding Medical Ventures Corp. including the Company's Financial Statements can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Date: March 14, 2008

### OVERVIEW

#### Description of the Business

Medical Ventures Corp. ("Medical Ventures," "MEV" and the "Company") develops, manufactures and commercializes medical devices, focusing on products that address clinical needs in the vascular and surgical marketplace. MEV's strategy is to acquire and develop technologies and products that are within two years of commercialization and to increase the value of its technologies through the commercialization process. Key hurdles in the commercialization process include: completing final development, including design control, pre-production and clinical trials; securing the necessary regulatory approvals to sell the Company's products in world markets; and ultimately gaining market acceptance of the Company's products through direct sales or distribution and licensing agreements with distribution partners around the world.

MEV's vision is to develop a portfolio of medical devices from which the Company generates revenue from the distribution, licensing or sale of each of these products. MEV is focused on unique market opportunities, where

few technical solutions currently exist; and niche market opportunities. The niche market opportunities are particularly attractive as they generally offer premium pricing as a result of less competition. Large multi-national medical device companies traditionally do not expend resources on developing solutions for these niche markets. Rather, they tend to enter these markets via acquisitions or through distribution or licensing agreements once these markets have been validated.

MEV's business operations started in March 2002, with the acquisition of PM Devices, Inc. ("PM Devices"). PM Devices manufactures a line of collagen surgical patch and staple line reinforcement products made for use in cardiac reconstruction and repair procedures as well as other surgeries. The products are made from chemically treated bovine and equine pericardial tissue.

In May 2003, MEV entered the rapidly growing interventional cardiology and radiology markets with the acquisition of Angiometrx Inc. ("Angiometrx"). Angiometrx has developed a technology called the "*Metricath*<sup>®</sup> System," an innovative catheter-based device that allows clinicians to measure artery and stent size and confirm stent deployment during interventional treatment of coronary and peripheral artery disease.

#### Metricath System

The Metricath product line consists of a small, pole-mounted console unit and two distinct catheter products: the *Metricath Libra*<sup>®</sup> measure-only catheter, and the *Metricath Gemini*<sup>®</sup> measure-and-treat catheter.

Metricath catheters are used during angioplasty, a procedure used to open arteries where blood flow is restricted by plaque (the accumulation of fats and cholesterol). To perform angioplasty, doctors thread a balloon-tipped catheter through the vasculature and inflate the balloon at the site of the blockage, opening the narrowed vessel. Once the vessel is open, doctors often implant a stent (a small metal mesh tube) to prevent it from re-closing.

Metricath provides the user with precise measurements of an artery by inflating the balloon at the catheter's tip and monitoring its volume and pressure as it comes up against the artery walls. These measurements allow doctors to quickly diagnose artery blockages and treat them with balloons and stents that are optimally sized for the artery. As an added benefit, Metricath catheters can also take measurements inside an implanted stent to ensure that it is fully open. In the case of the Metricath Gemini, a second, high-pressure balloon on the catheter may be used to expand under-deployed stents.

Accurate measurement is believed to be an important factor in patients' post-procedure outcomes, as it helps doctors confirm that stents are deployed properly within arteries. In 2006, the medical community identified a link

between the use of drug-coated stents and an increased risk of blood clotting, or “thrombosis,” as compared to situations where bare-metal (uncoated) stents are used. While it has not been determined definitively why this is the case, there are clinical indications that factors include the under-sizing of stents and/or under-expansion of stents against the artery wall in conjunction with the stents’ drug coating or polymer. As a result, there has been increased clinical focus on proper stent selection and expansion to help minimize the risk of stent thrombosis. Anecdotal evidence from the field suggests that physician awareness of the need to accurately size and place stents is continuing to increase, for reasons of potential liability as well as clinical utility. Metricath has the potential to offer improved care by reducing the risk of thrombosis associated with drug-coated stents. By using Metricath to confirm artery and stent size, doctors can be more confident that stents fit correctly within the arteries in which they are placed.

The Metricath System was developed in response to the limitations of existing measurement technologies that are either insufficiently accurate or prohibitively expensive and time-consuming to gain widespread market acceptance. Obtaining accurate measurements is problematic using conventional imaging techniques such as angiography. Intravascular ultrasound (IVUS) catheters can provide precise vascular measurements; however, IVUS is comparatively expensive and time-consuming to use. IVUS takes approximately three times longer to set up and use than Metricath and has a disposable cost of between two and three times that of Metricath. In addition, where IVUS requires the purchase or lease of a complex image acquisition and analysis system, Metricath imposes minimal capital costs on users.

Current estimates are that approximately 2.5 million stent implantation procedures are performed each year around the world. The Metricath System is intended to be a simple and cost-effective vascular measurement tool that can be adopted easily into standard treatment practices.

#### *Regulatory Status*

The Metricath Libra is cleared for sale in the United States, Canada, the European Union, Australia, Brazil and Israel. The Metricath Gemini is cleared for sale for peripheral artery use in the United States, for coronary arteries in Canada, and for all vascular applications in the European Union. In Q4 2007 the company filed a Pre-Market Approval (“PMA”) application for FDA approval of the Metricath Gemini for coronary procedures in the U.S. This application followed completion of the GAAME clinical trial which was undertaken to provide the clinical data required to support this application (see “Product Development and Clinical Trials”).

#### *Distribution*

The Metricath line is sold via direct sales in the U.S. and Canada and via distributors in other countries. Company activities are presently focused on supporting and growing sales in the U.S. market, which makes up approximately half of the total world market for products of this type. There are currently seven sales positions covering select regions of the U.S. and Canada, and MEV may expand the sales team as market acceptance increases and in preparation for approval of the Metricath Gemini and other product acquisitions.

#### **PeriPatch Products**

Medical Ventures also manufactures the *PeriPatch™* line of surgical tissue products. The PeriPatch line consists of several flexible, biomaterial tissue products made from animal sources. They are chemically treated with proprietary technology to prevent their degradation and to maintain their biocompatibility. PeriPatch products are used for vascular repair and reconstruction, as well as in other surgical procedures including staple and suture line reinforcement. The biocompatibility of these products allows optimal host tissue incorporation, and no special sutures are required to make a secure seal. The product line includes: the *PeriPatch™ Sheet* and *PeriPatch™ EQ Sheet*, rectangular patches made from bovine (cow) or equine (horse) tissue applied as internal bandages to repair weak or damaged organs or vessels; and the *PeriPatch™ Aegis*, a new product for staple line reinforcement during endoscopic (minimally invasive) surgical procedures. There are approximately two million surgical procedures performed annually around the world where tissue products may be applied. In addition, a primary application of the PeriPatch Aegis is for use during bariatric surgery (such as gastric bypass) to treat morbid obesity. This type of surgery has seen significant growth in the past decade, providing an attractive market for the Aegis product.

#### *Regulatory Status*

The PeriPatch Sheet is cleared for sale in the U.S., Canada and Mexico. The PeriPatch EQ Sheet is approved for sale in the European Union and in Canada. The PeriPatch Aegis is cleared for sale in the United States.

#### *Distribution*

MEV sells its tissue and surgical products through a network of country-specific distributors. The Company provides training and promotional materials to its current distributors while striving to obtain new distributors in selected target markets. The Company’s goal is to steadily increase its distribution reach in new markets, while increasing market share in current markets and in particular in the U.S., which has seen significant growth in staple line reinforcement product sales in recent years.

Currently, the Company has distribution agreements for its PeriPatch products covering the United States and Canada as well as selected countries in Europe and elsewhere. In the United States, MEV distributes the PeriPatch line through MedSurg Specialty Devices (formerly called Itochu Healthcare or "Itochu"), a large network of healthcare product distributors and sub-distributors that has broad distribution arrangements with healthcare facilities across the country. MEV is in the process of establishing a network of distributors to sell the PeriPatch EQ sheet in the European market.

#### **Additional Products and Third Party Sales**

MEV provides consulting and OEM manufacturing services to other medical device companies when these services fall within the scope of its expertise and capabilities. Revenue earned from various contract agreements varies throughout the year depending on customer needs.

#### **Regulatory Affairs and Clinical Trials**

In Q1 2007, MEV received a Health Canada licence for the Metricath Gemini, permitting the device to be used in coronary artery procedures in Canada. This licence also provides the product with country-of-origin certification. "Home-country approval" is required to complete regulatory approval processes in certain international markets.

Also in Q1 2007, MEV applied for and received U.S. FDA 510(k) marketing clearance for its new endoscopic staple-line reinforcement product, the PeriPatch Aegis.

In Q3 2007, the Company completed enrollment in its GAAME clinical trial. The trial, called Gemini Angioplasty and Arterial Measurement Evaluation ("GAAME"), is necessary to support the Company's Pre-Market Approval (PMA) application to the FDA to approve the Metricath Gemini in the U.S for coronary applications. Data analysis for the GAAME trial was completed and the associated results were submitted to the FDA in Q4 2007 as the third and final module of this PMA application. The first two modules of the application were submitted previously and review of the entire application by the FDA is presently underway.

#### **Product Development**

Product development by the Company is presently focused on the refinement and improvement of existing products.

Subsequent to year-end, the Company announced the intent to acquire two pre-commercial medical device companies located in Israel. Should this acquisition be completed as intended, product development activities will be expanded to involve ongoing development of the new product lines within the acquired companies.

#### **Sales & Marketing**

The Company's sales and marketing activities are focused on building market awareness and support for its products and improving penetration into these markets through its direct sales force and distributors. The Company has retained industry experts with experience in introducing new technologies into established medical device markets to assist it to develop sales and reimbursement strategies.

For the Metricath product line, the Company has continued to build awareness of the product through the sponsorship of clinical trials, direct advertising, incorporation of Metricath into medical training programs, the sponsorship of live cases at medical conferences, placing product displays at medical conferences and similar activities.

The Company has also focused on making its direct sales force more efficient by providing sales tools to demonstrate the value of the Metricath product, overcome customer questions and provide a path for reimbursement. The Company is also working to re-organize its sales territories to ensure sales reps are located in the best possible locations relative to their accounts.

For the tissue product lines, the Company has continued to help generate awareness of its products by closely supporting its distributors. In Q3 2007, the Company began beta launch activities for the PeriPatch Aegis product in the U.S. A full U.S. market launch began in Q4 2007 and is currently underway.

#### **TRENDS, RISKS AND UNCERTAINTIES**

Medical Ventures has a limited operating history which makes it difficult to predict how its business will develop or its future operating results. The Company has a history of fiscal losses since its inception and will need to generate significantly greater revenues than it has to date to achieve and maintain profitability. There is no certainty of future profitability, and results of operations in future periods cannot be predicted based on results of operations in past periods. Generally, the securities of the Company should be considered a highly speculative investment.

MEV is subject to risks and uncertainties associated with operating in the life sciences industry and as a company engaged in a significant level of development, regulatory, production and commercialization activity. Other than the standard operating risks associated with such a venture, the Company's management is not aware of any trend, commitment, event or uncertainty that is presently known or is reasonably expected to have a material effect on the Company's business, financial condition or results of operations. MEV cannot anticipate or prevent all of the potential risks to its success, nor predict the impact of any such risk. To the

extent possible, management implements strategies aimed at reducing or mitigating risks and uncertainties associated with the business.

Operating risks include but are not limited to: market acceptance of the Company's technology and products; the Company's ability to obtain and enforce timely patent protection of its technology and products; the Company's ability to develop, manufacture and commercialize its products cost-effectively and according to regulatory standards of numerous governments; the competitive environment and impact of technological change and/or product obsolescence; the continued availability of capital to finance the Company's activities; the Company's ability to conduct and complete successful clinical trials; the Company's ability to garner regulatory approvals for its products in a timely fashion; the Company's ability to attract and retain key personnel, effectively manage growth, and smoothly integrate newly acquired businesses or technologies; limitations on third-party reimbursement; instances of product or third-party liability; dependence on a single supplier for some products; animal disease or other factors affecting the quality and availability of raw materials; conflicts of interest among the Company's directors, officers, promoters and members of management; fluctuations in the values of relative foreign currencies; volatility of the Company's share price; fluctuations in quarterly financial results; unanticipated expenses; changes in business strategy; impact of any negative publicity; general political and economic conditions; and Acts of God and other unforeseeable events, natural or human-caused.

A portion of Metricath catheter sales efforts are targeting use in renal artery stenting procedures. In 2007, the Centers of Medicare and Medicaid Services (CMS), the largest U.S. health care payer, generated a national coverage analysis (NCA) and initiated reconsideration of its coverage policy for percutaneous transluminal angioplasty (PTA) of the renal arteries. On February 14, 2008, CMS issued its final decision memo to make no changes, continuing to leave coverage and reimbursement decisions to the discretion of regional Medicare contractors. Individual contractor decisions may adversely affect this market by reducing the number of renal stent implantations undertaken in the U.S.

Please refer to the Medical Ventures' Annual Information Form for a more extensive list of operating risks.

## **FOREIGN OPERATIONS**

The majority of the Company's revenues are derived from product sales in the United States, primarily denominated in United States currency. The Company expects that international sales will continue to account for a significant portion of its revenues that are denominated in foreign currencies. Consequently, a decrease in the value of a relevant foreign currency in

relation to the Canadian dollar, occurring after establishment of prices and before receipt of payment by Medical Ventures, has an adverse effect on the Company's results of operations. Additionally, MEV may be materially and adversely affected by increases in duty rates, exchange or price controls, repatriation restrictions, or other restrictions on foreign currencies. The Company's international operations are subject to certain other risks common to international operations, including, without limitation: government regulations; import restrictions and, in certain jurisdictions, reduced protection for the Company's intellectual property rights.

Foreign currency translation gains and losses arising from normal business operations are credited to or charged to operations in the period incurred. To date, MEV has not entered into any foreign exchange forward contracts.

## **SELECTED ANNUAL FINANCIAL INFORMATION**

The following discussion should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2007 and 2006.

## **DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION**

This section analyzes the significant changes in the audited consolidated financial statements of operations and deficit and cash flows for the year ended December 31, 2007 compared to those for the same period ended December 31, 2006 and compares the financial condition at December 31, 2007 to that at December 31, 2006.

### **Results of Operations**

Results for the year ended December 31, 2007 and 2006 follow:

#### **Net Losses**

The consolidated net loss for the year ended December 31, 2007 was \$7,830,954 or \$0.08 per share as compared with a net loss of \$5,483,962 or \$0.08 per share for the comparative period in 2006.

#### **Revenues**

Revenues in 2007 increased 40% year over year, from 1,082,830 for the year ended December 31, 2006 to 1,517,873 for the year ended December 31, 2007.

Sales of catheter products for the year ended December 31, 2007 were \$258,017, an increase of 38% or \$70,963 over sales of \$187,054 in the comparable period in 2006. Throughout 2007, the Company continued to develop its direct sales force after cancelling an agreement with a distributor in the United States in 2006. The Company has strengthened sales management,

hired a reimbursement specialist and redistributed sales reps to high population areas in an effort to accelerate sales growth.

Sales of tissue and surgical products and services for the year ended December 31, 2007 were \$1,259,896 as compared to sales of \$895,776 for the year ended December 31, 2006. These revenues were derived from the sales of PeriPatch products and contract manufacturing. In the fourth quarter of 2007, the Company launched PeriPatch Aegis, its new staple-line reinforcement product.

#### **Cost of Sales**

In June 2007, the CICA issued Handbook Section 3031 (Inventories) to replace the previous Section 3830. This new section establishes Canadian GAAP for the measurement and disclosure of inventories. The Company has elected to adopt this standard early and for the year ended December 31, 2007 had made adjustments to the way in which direct and indirect labour rates are estimated based on the normal capacity of the production facility during the year. In addition the Standard requires that the Company include the cost of underutilized capacity in the cost of sales and the Company has split the cost of sales into cost of goods sold and underutilization of production assets.

The cost of sales for the year ended December 31, 2007 was \$799,593 as compared to \$613,219 and the overall gross margin for 2007 was 47% (2006 – 43%). Within the cost of sales for 2007, the cost of underutilized capacity was \$100,510.

#### **Expenses**

Total expenses for the years ended December 31, 2007 and 2006 were \$8,426,223 and \$5,962,082 respectively. The increase in expenses in 2007 relate principally to increased sales and marketing activities associated with direct distribution, increased costs associated with the GAAME trial and a \$559,131 inventory write down.

Sales and marketing expenses increased from \$1,725,825 in 2006 to \$2,839,897 as the Company continued to roll out its direct distribution channel for the Metricath product line in the United States.

General and administrative expenses for the year ended December 31, 2007 were \$2,282,283 in 2007 as compared to \$2,256,966 in 2006. In 2007, the Company

consolidated its operations to constrain growth in overhead expenses.

Product development and clinical trial expenses for the year ended December 31, 2007 of \$2,744,913 were \$765,622 higher than 2006 expenditures of \$1,979,291. The increase in expenses was principally attributable to higher costs relating to the GAAME study. Almost all costs associated with the study will be incurred by the end of the first quarter of 2008.

During the second quarter, the Company undertook a comprehensive review of open work orders in work in progress and identified \$106,186 of write-downs, principally related to old work orders still carrying a value in inventory, but with minimal material still on the shop floor. The net realizable value of these work orders was assessed to be lower than the carrying value on the balance sheet and the excess valuation was written down during the period.

The Company transferred certain consoles in consignment and trunk stock inventory to property and equipment. The Company assessed part of the value of these consoles to be lower than their carrying value and wrote them down by \$43,932 prior to transferring them to property and equipment. In addition, The Company wrote down the consoles in inventory by \$35,145 to their estimated net realizable value.

At year end the Company reviewed its inventory of catheters; \$46,870 of these were identified as short lived catheters and unlikely to sell before their sterilization expired and a further \$106,906 was deemed obsolete due to an improved tip design for the Gemini catheter. In addition, certain sub assemblies for consoles were identified and provided for, amounting to an additional \$220,092 write down.

#### **Amortization and Other expenses**

Amortization and other expenses for 2007 were \$123,010 as compared to other income of \$8,509 for 2006. Amortization increased by \$59,950, the loss on foreign exchange increased by of \$41,075 and there was an additional charge of \$14,891 for accreted interest on the repayable contribution agreement. In 2007, the Company adopted the recommendations of the CICA Handbook Section 3855, (Financial Instruments) and has valued the repayable contribution agreement at amortized cost incurring an accreted interest charge for the year of \$14,891.

## Annual Information

The following is a summary of selected financial information for the three fiscal years to December 31, 2007:

	Years ended December 31		
	2007	2006	2005
Sales	\$ 1,517,873	\$ 1,082,830	\$ 363,958
Net loss	(7,830,954)	(5,483,962)	(6,258,902)
Basic and diluted loss per share	(0.08)	(0.08)	(0.14)
Total assets	5,689,800	5,286,557	3,757,328
Total long term liabilities	725,499	529,480	212,071
Cash dividend declared per share	Nil	Nil	Nil

## Quarterly Information

The following is a summary of selected unaudited financial information for the eight fiscal quarters to December 31, 2007:

	Quarter Ended - Unaudited			
	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
<b>Sales</b>				
Catheter products	\$ 81,004	\$ 55,306	\$ 51,432	\$ 70,275
Tissue and surgical products and services	545,970	163,534	294,379	255,973
	<u>626,974</u>	<u>218,840</u>	<u>345,811</u>	<u>326,248</u>
Cost of sales	372,956	105,897	201,189	119,551
<b>Expenses</b>				
Selling	785,773	801,805	785,131	467,188
General and administration	539,385	504,988	730,090	507,820
Product development and clinical trials	683,379	618,971	790,643	651,920
Inventory Write Down	434,961	-	124,170	-
	<u>2,443,498</u>	<u>1,925,764</u>	<u>2,430,034</u>	<u>1,626,928</u>
EBITDA	(2,189,480)	(1,812,821)	(2,285,412)	(1,420,231)
Amortization/Other expenses	110,749	(10,645)	23,085	(179)
<b>Net loss</b>	<u>(2,300,229)</u>	<u>(1,802,176)</u>	<u>(2,308,497)</u>	<u>(1,420,052)</u>
Net loss per share	(0.02)	(0.02)	(0.02)	(0.02)

	Quarter Ended - Unaudited			
	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
<b>Sales</b>				
Catheter products	\$ 82,020	\$ 32,258	\$ 16,633	\$ 56,143
Tissue/surgical products	56,738	186,301	332,379	320,358
	<u>138,758</u>	<u>218,559</u>	<u>349,012</u>	<u>376,501</u>
Cost of sales	228,084	112,855	123,829	148,451
<b>Expenses</b>				
Selling	596,785	440,762	460,827	227,451
General and administration	467,550	635,611	678,622	475,183
Product development and clinical trials	787,457	348,102	441,701	402,031
Inventory Write Down	-	-	-	-
	<u>1,851,792</u>	<u>1,424,475</u>	<u>1,581,150</u>	<u>1,104,665</u>
EBITDA	(1,941,118)	(1,318,771)	(1,355,967)	(876,615)
Amortization/Other expenses	16,865	(5,302)	(13,913)	(6,159)
<b>Net loss</b>	<u>(1,957,983)</u>	<u>(1,313,469)</u>	<u>(1,342,054)</u>	<u>(870,456)</u>
Net loss per share	(0.03)	(0.02)	(0.02)	(0.01)

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company finances its operations and capital expenditures with cash generated from operations, lines of credit, long-term debt and equity financings. At December 31, 2007, the Company had cash and cash equivalents of \$3,242,404 and working capital of \$3,431,266, as compared to cash of \$2,748,735 and working capital of \$4,015,561 as at December 31, 2006. In addition, the Company has restricted cash related to security on long-term debt of \$50,000 (2006 - \$50,000) included in long-term assets.

Cash used in operations was \$6,884,596 for the year ended December 31, 2007, as compared to \$5,134,613 for the year ended December 31, 2006. Higher operating losses associated with completing the GAAME trial and establishing a direct sales force for Metricath products in the U.S. account for the increased consumption of cash.

Cash used in investing activities was \$524,316 and \$197,101 for the years ended December 31, 2007 and 2006, respectively. In July 2007, the Company purchased additional warehouse and office facilities to support anticipated future growth. Prior to the purchase, the Company owned two warehouse and office facilities and rented a third. This purchase enabled the Company to consolidate into three adjoining units and further improve operational effectiveness.

The Company completed a financing transaction to fund its operations and a mortgage on additional facility space in the year ended December 31, 2007. In July, the Company's increased its long term mortgage debt by \$298,911 to \$470,000 to partially fund the purchase of additional facilities, as outlined previously. The loan is collateralized by a first charge over the Company's land and buildings, a liquid security agreement of \$50,000 to be held in cash equivalent investments and a general security agreement over all personal property of the business now owned and all personal property acquired in the future. The loans bear interest at prime. The loan is repayable in blended monthly principal and interest installments of \$4,095 until August 1, 2022.

On April 24, 2007, pursuant to a public offering under a short form prospectus dated April 13, 2007, the Company issued 38,709,110 units of the Company at a price of \$0.20 per unit for aggregate gross proceeds of \$7,741,822. Each unit consisted of one common share and one-half of one non-transferable common share purchase warrant entitling the holder to purchase one additional common share for every whole warrant at a price of \$0.25 per share, expiring on October 24, 2008. On closing, the Agent received non-transferable share purchase warrants to purchase up to 1,659,356 common shares at a price of \$0.20 per share, exercisable until

October 24, 2008. Share issue costs amounted to \$722,711 for net proceeds of \$7,019,111.

Subsequent to the financing on May 4, 2007, the Agent exercised 1,161,549 agent warrants at \$0.20 per share for aggregate gross proceeds of \$232,310.

The foregoing proceeds compare to net cash proceeds of \$6,848,895 for the year ended December 31, 2006. The increase in cash in 2006 was attributable to a private placement completed on February 14, 2006, pursuant to which the Company issued 18,750,000 units of the Company at a price of \$0.40 per unit for aggregate gross proceeds of \$7,500,000 less costs of approximately \$651,106.

Medical Ventures has no material commitments other than its long-term debt. The Company will continue to be reliant on external sources for funding until such time as its cash flows from operations, credit lines and cash on hand are sufficient to fund sustained operations and growth. There can be no assurance that these funds will be available on favourable terms, if at all.

## **SUBSEQUENT EVENT**

On January 30, 2008 the Company signed an agreement to acquire two vascular product development companies, B-Balloon Ltd. and Neovasc Medical Ltd. The terms of the agreement provide that on closing the Company will consolidate its outstanding shares at a ratio of one for 20. Subsequent to the consolidation of its shares, the Company will issue to the shareholders of B-Balloon and Neovasc the number of common shares equal to the fully diluted number of common shares of the Company then outstanding, such that the shareholders of Medical Ventures, B-Balloon and Neovasc will each hold approximately one third of the issued share capital of Medical Ventures after the acquisition. As a condition of the agreement and subsequent to the issuance of the new shares, the Company will raise a minimum of \$6,000,000 by issuing 1,500,000 units at \$4.00 per unit. Each unit will consist of one common share of the Company and 0.62 warrants. Each whole warrant will be exercisable for one common share at \$5.00 per share for 18 months from the date of closing. The acquisitions and concurrent financing are interdependent and principally subject to: TSX Venture Exchange approval; the approval of shareholders of each of the three companies; and certain Israeli government and other third party consents, as well as customary closing opinions and deliveries.

## **OUTSTANDING SHARE DATA**

As at December 31, 2007, the Company had 111,209,545 common voting shares issued and outstanding. Further, the following securities are

convertible into, exercisable or exchangeable for common shares of the Company: 4,346,328 stock options with a weighted average price of \$0.32, and 30,946,966 share purchase warrants with exercise prices ranging from \$0.25 to \$0.75.

#### **OFF BALANCE SHEET ARRANGEMENTS**

The Company has no off balance sheets arrangements.

#### **RELATED PARTY TRANSACTIONS**

Related party transactions are disclosed in Note 16 of the unaudited consolidated financial statements. Medical Ventures has a contract with a corporation owned by its CEO for his services that are invoiced monthly. All other related party transactions are invoiced to MEV on a month-to-month basis for services rendered. There are no potential material termination clauses in any of the related party agreements.

#### **PROPOSED TRANSACTIONS**

The Company is not party to any transaction requiring additional disclosure except as disclosed in the preceding subsequent event section of this document.

#### **CONTROLS AND PROCEDURES**

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO), in cooperation with the other members of senior management and Directors, are responsible for the Company's disclosure policy. The effectiveness of the Company's internal disclosure controls have been evaluated by the CEO and the CFO, and they have concluded that the Company's control procedure provides reasonable assurance that (i) information required to be disclosed by the Company in its annual and interim reports or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods, and (ii) material information regarding the Company is accumulated and communicated to the Company's management, including its CEO and CFO, in a timely manner.

The CEO and CFO are responsible for the design of internal controls over financial reporting in order to provide reasonable assurance that the Company's financial reporting is reliable and that financial statements prepared for external purposes are prepared in accordance with Canadian GAAP and for the safeguarding of Company assets. The CEO and CFO are aware that internal controls relating to the accounting function could be strengthened by adhering to a strict policy of segregating the duties of accounting staff to reduce the risk of unauthorized journal entries being made or a misappropriation of cash. At the Company's current size, adoption of such a policy is impractical. To

reduce these risks, the CFO reviews bank reconciliation statements and performs periodic reviews of non-standard entries after they have been recorded; all cheque payments require two signing authorities. The CEO periodically reviews recorded financial information. The CEO and CFO believe that these reviews are an adequate compensating control; accordingly, there are no plans to remediate this internal control weakness.

No material changes were made to the Company's system of internal controls relating to financial reporting during the twelve-month period ending December 31, 2007.