Neovasc Inc.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012

(Expressed in Canadian dollars)

CONTENTS

NEOVASC INC.

Notice of No Auditor Review of Interim Consolidated Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim consolidated financial statements they must be accompanied by a notice that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by management and approved by the audit committee and board of directors of the Company.

The Company's independent auditors have not performed a review of these interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

NEOVASC INC.
Interim Consolidated Statements of Financial Position (Unaudited)
(Expressed in Canadian dollars)

	Notes	March 31, 2013	December 31, 2012 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents	6	**$ 4,859,604**	$ 5,861,120
Accounts receivable	7	**1,240,153**	1,248,271
Inventory	8	**449,399**	191,942
Prepaid expenses and other assets		**73,062**	29,891
Total current assets		**6,622,218**	7,331,224
Non-current assets			
Property, plant and equipment	9	**1,746,011**	1,467,372
Total non-current assets		**1,746,011**	1,467,372
Total assets		**$ 8,368,229**	$ 8,798,596
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Bank overdraft	10	**$ 127,098**	$ -
Accounts payable and accrued liabilities	11	**1,266,595**	1,067,283
Current portion of long-term debt	12	**42,816**	42,540
Total current liabilities		**1,436,509**	1,109,823
Non-current liabilities			
Long-term debt	12	**230,882**	241,083
Total non-current liabilities		**230,882**	241,083
Total liabilities		**1,667,391**	1,350,906
Equity			
Share capital	13	**70,520,385**	70,421,185
Contributed surplus	13	**9,384,362**	8,370,258
Deficit		**(73,203,909)**	(71,343,753)
Total equity		**6,700,838**	7,447,690
Total liabilities and equity		**$ 8,368,229**	$ 8,798,596

See Accompanying Notes to the Interim Consolidated Financial Statements

NEOVASC INC.

Interim Consolidated Statements of Comprehensive Loss (Unaudited)

For the three months ended March 31,
(Expressed in Canadian dollars)

	Notes	2013	2012
REVENUE			
Product sales		**$ 590,045**	$ 709,642
Contract manufacturing		**575,149**	341,447
Consulting services		**844,186**	661,902
	15	**2,009,380**	1,712,991
COST OF GOODS SOLD	16	**1,235,281**	879,272
GROSS PROFIT		**774,099**	833,719
EXPENSES			
Selling expenses	16	**21,007**	43,227
General and administrative expenses	16	**1,725,732**	1,213,805
Product development and clinical trials expenses	16	**988,571**	833,984
		2,735,310	2,091,016
OPERATING LOSS		**(1,961,211)**	(1,257,297)
OTHER INCOME/(EXPENSE)			
Interest income		**-**	11,334
Interest expense		**(2,360)**	(2,750)
Gain/(loss) on foreign exchange		**103,415**	(16,578)
		101,055	(7,994)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		**$ (1,860,156)**	$ (1,265,291)
LOSS PER SHARE			
Basic and diluted loss per share	18	**$ (0.04)**	$ (0.03)

See Accompanying Notes to the Interim Consolidated Financial Statements

NEOVASC INC.

Interim Consolidated Statements of Changes in Equity (Unaudited)

(Expressed in Canadian dollars)

	Notes	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at January 1, 2012		**$ 70,220,381**	**$ 6,158,434**	**$ (70,992,385)**	**$ 5,386,430**
Issue of share capital on exercise of options		114,604	(110,279)	-	4,325
Share-based payments		-	759,602	-	759,602
Transaction with owners during the period		**114,604**	**649,323**	**-**	**763,927**
Loss and comprehensive loss for the period		**-**	**-**	**(1,265,291)**	**(1,265,291)**
Balance at March 31, 2012		**$ 70,334,985**	**$ 6,807,757**	**$ (72,257,676)**	**$ 4,885,066**
Balance at January 1, 2013		**$ 70,421,185**	**$ 8,370,258**	**$ (71,343,753)**	**$ 7,447,690**
Issue of share capital on exercise of warrants	13(b)(ii)	53,125	-	-	53,125
Issue of share capital on exercise of options	13(b)	46,075	(22,363)	-	23,712
Share-based payments	13(b)	-	1,036,467	-	1,036,467
Transaction with owners during the period		99,200	1,014,104	-	1,113,304
Loss and comprehensive loss for the period		**-**	**-**	**(1,860,156)**	**(1,860,156)**
Balance at March 31, 2013		**$ 70,520,385**	**$ 9,384,362**	**$ (73,203,909)**	**$ 6,700,838**

See Accompanying Notes to the Interim Consolidated Financial Statements

NEOVASC INC.

Interim Consolidated Statements of Cash Flows (Unaudited)
For the three months ended March 31,
(Expressed in Canadian dollars)

	Notes	2013	2012
OPERATING ACTIVITIES			
Loss for the period		**$ (1,860,156)**	$ (1,265,291)
Adjustments for:			
Depreciation	16	**35,996**	26,790
Share-based payments	16	**1,036,467**	759,602
Interest income		**-**	(11,334)
Interest expense		**2,360**	2,750
		(785,333)	(487,483)
Net change in non-cash working capital items:			
Accounts receivable		**8,118**	151,167
Inventory		**(257,457)**	(244,074)
Prepaid expenses and other assets		**(43,171)**	(18,299)
Accounts payable and accrued liabilities		**199,312**	(17,692)
		(93,198)	(128,898)
Interest paid and received:			
Interest received		**-**	11,334
Interest paid		**(2,360)**	(2,750)
		(2,360)	8,584
		(880,891)	(607,797)
INVESTING ACTIVITES			
Increase in investments in guaranteed investment certificates		**-**	(1,008,423)
Purchase of property, plant and equipment		**(314,635)**	(93,906)
		(314,635)	(1,102,329)
FINANCING ACTIVITIES			
Increase in bank overdraft		**127,098**	-
Decrease in restricted cash & cash equivalents		**-**	876
Repayment of long-term debt		**(9,925)**	(9,535)
Proceeds from exercise of warrants		**53,125**	-
Proceeds from exercise of options		**23,712**	4,325
		194,010	(4,334)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(1,001,516)**	(1,714,460)
CASH AND CASH EQUIVALENTS			
Beginning of the period		**5,861,120**	2,404,510
End of the period		**$ 4,859,604**	$ 690,050
Represented by:			
Cash	6	**4,859,604**	184,592
Cashable high interest savings accounts		**-**	504,385
Cashable guaranteed investment certificates		**-**	1,073
		$ 4,859,604	$ 690,050

1. INCORPORATION AND NATURE OF BUSINESS

Neovasc Inc. ("Neovasc" or the "Company") is a limited liability company incorporated and domiciled in Canada. The Company was incorporated as Medical Ventures Corp. under the Company Act (British Columbia) on November 2, 2000 and was continued under the Canada Business Corporations Act on April 19, 2002. On July 1, 2008, the Company changed its name to Neovasc Inc.

Neovasc is the parent company. The consolidated financial statements of the Company as at March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012 comprise the Company and its subsidiaries, all of which are wholly owned. Neovasc's registered office and its principal place of business is Suite 2135, 13700 Mayfield Place, Richmond, British Columbia, Canada, V6V 2E4. The Company's shares are listed on the TSX Venture Exchange.

Neovasc is a specialty medical device company that develops, manufactures and markets products for the rapidly growing cardiovascular marketplace. Its products include the Neovasc Reducer™ for the treatment of refractory angina, the Tiara™ technology in development for the transcatheter treatment of mitral valve disease and a line of advanced biological tissue products that are used as key components in a variety of third-party medical products, such as transcatheter heart valves.

2. BASIS OF PREPARATION

(a) Statement of compliance with IFRS

These interim consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"), using the accounting policies consistent with the Company's annual consolidated financial statements for the year ended December 31, 2012. These interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2012 and the accompanying notes included in those financial statements. For a full description of accounting policies, refer to the audited annual consolidated financial statements of the Company for the year ended December 31, 2012.

The results for the three months ended March 31, 2013 may not be indicative of the results that may be expected for the full year or any other period.

(b) Basis of measurement

The Company's interim consolidated financial statements have been prepared on the historical cost basis except for accounts receivable measured at amortized cost and inventory measured at net realizable value.

(c) Basis of consolidation

The interim consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries, Neovasc Medical Inc., Angiometrx Inc., Neovasc Medical Ltd., B-Balloon Ltd. and Neovasc (US) Inc. All intercompany balances and transactions have been eliminated upon consolidation.

(d) Presentation of financial statements

The Company has elected to present the 'Statement of Comprehensive Income' in a single statement.

2. BASIS OF PREPARATION (continued)

(e) Use of estimates and management judgment

The preparation of interim consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of estimates relate to the determination of the net realizable value of inventory (obsolescence provisions), allowance for doubtful accounts receivable, impairment of non-financial assets, useful lives of depreciable assets and expected life, volatility and forfeiture rates for share-based payments.

Inventories
The Company estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

Allowance for doubtful accounts receivable
The Company provides for bad debt by setting aside accounts receivable past due more than 121 days. Actual collectability of customer balances can vary from the Company's estimation.

Impairment of long-lived assets
In assessing impairment, the Company estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Useful lives of depreciable assets
The Company reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utilization of the assets.

Share-based payment
The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and forfeiture rates and making assumptions about them.

(Expressed in Canadian dollars)

3. CHANGES IN ACCOUNTING POLICIES

During the three months ended March 31, 2013, there have been no changes in accounting policies.

4. MANAGING CAPITAL

The Company's objectives, when managing capital, are to safeguard cash as well as maintain financial liquidity and flexibility in order to preserve its ability to meet financial obligations and deploy capital to grow its business. In the definition of capital, the Company includes equity and long-term debt. There has been no change in the definition since the prior period.

The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to business growth opportunities and changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue new shares, or new debt (secured, unsecured, convertible and/or other types of available debt instruments).

The capital of the Company is comprised of:

	March 31, 2013	December 31, 2012
Equity	**$ 6,700,838**	$ 7,447,690
Long-term debt	**273,698**	283,623
	$ 6,974,536	$ 7,731,313

The Company is subject to certain financial covenants in connection with its long-term debt, including a requirement to limit the amount of total debt in relation to total equity. As at March 31, 2013 and December 31, 2012, the Company was in compliance with all financial covenants associated with its long-term debt.

For the three months ended March 31, 2013 and 2012 there were no changes in the Company's capital management policy.

5. FINANCIAL RISK MANAGEMENT

(a) Foreign exchange risk

The majority of the Company's revenues are derived from product sales in the United States and Europe, primarily denominated in United States and European Union currencies. Management has considered the stability of the foreign currency and the impact a change in the exchange rate may have on future earnings during the forecasting process. United States and European Union currency represents approximately 59% and 30% of the revenue for three months ended March 31, 2013 (three months ended March 31, 2012: 55% and 37% respectively). A 5% change in the foreign exchange rates for United States and European Union currencies will result in a change in revenues of approximately $59,000 and $30,000 respectively. A 5% change in the foreign exchange rates for the United States and European Union currencies will result in a change in foreign currency denominated accounts receivable of approximately $18,000 and $17,500 respectively and a change in foreign currency denominated accounts payable of approximately $14,500 and $3,700 respectively.

(b) Interest rate risk

The Company makes fixed repayments on its long-term debt (see Note 12). Included in the repayments is an interest payment with an interest rate floating at prime rate plus 0.5% per annum. Management has considered the risks to cash flows from this variable interest portion and considers it unlikely that the interest rates will increase sufficiently to exceed the fixed monthly payment due on the bank loan. A 1% change in the interest rate on the bank loan will change the interest rate expense for the year by approximately $780 (2012: $800) and inversely change the amount of principal repaid by the same amount.

(c) Liquidity risk

As at March 31, 2013 the Company had $4,859,604 in cash and cash equivalents. The cash use in operations during the three months ended March 31, 2013 was $880,891.

As at March 31, 2013 the Company had working capital of $5,185,709 as compared to working capital of $6,221,401 at December 31, 2012.

(d) Credit risk

Credit risk arises from the possibility that the entities to which the Company sells products may experience financial difficulty and be unable to fulfill their contractual obligations. This risk is mitigated by proactive credit management policies that include regular monitoring of the debtor's payment history and performance. The Company does not require collateral from its customers as security for trade accounts receivable but may require certain customers to pay in advance of any work being performed or product being shipped. The maximum exposure, if all of the Company's customers were to default at the same time is the full carrying value of the trade accounts receivable at March 31, 2013: $787,780 (December 31, 2012: $844,850).

As at March 31, 2013, the Company had $12,862 (December 31, 2012: $8,706) of trade accounts receivable that was overdue, according to the customers' credit terms. Of these the Company has provided for $nil of trade accounts receivable which management believes may be impaired (December 31, 2012: $nil). During the three months ended March 31, 2013 and 2012 the Company wrote down $nil of accounts receivable owed by customers.

(Expressed in Canadian dollars)

6. CASH AND CASH EQUIVALENTS

	March 31, 2013	December 31, 2012
Canadian dollars	$ **72,828**	$ 293,409
United States dollars	**4,677,634**	5,287,649
European euros	**109,142**	280,062
	$ **4,859,604**	$ 5,861,120

7. ACCOUNTS RECEIVABLE

	March 31, 2013	December 31, 2012
Trade receivables	$ **787,780**	$ 844,850
Receivable from LeMaitre Vascular, Inc.	**344,862**	344,862
Other receivables	**107,511**	58,559
	$ **1,240,153**	$ 1,248,271

At December 31, 2012, the Receivable from LeMaitre Vascular Inc. ("LeMaitre") represents amounts due one year after from the sale of a license to LeMaitre. All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value. The aging analysis of receivables is as follows:

	March 31, 2013	December 31, 2012
Not past due	$ **774,918**	$ 836,144
Past due 0 - 30 days	**-**	-
Past due 31 - 60 days	**-**	8,706
Past due 61 - 90 days	**3,215**	-
Past due 91 - 120 days	**9,647**	-
Past due more than 121 days	**-**	-
	$ **787,780**	$ 844,850

All of the receivables are pledged as security for the long-term debt of the Company (see Note 12). All of the receivables have been reviewed for impairment. No impairment was found. The movement in the allowance for doubtful accounts is as follows:

	March 31, 2013	December 31, 2012
Balance, start of the period	$ **-**	$ 3,868
Amounts recorded during period	**-**	(3,868)
	$ **-**	$ -

8. INVENTORY

	March 31, 2013	December 31, 2012
Raw materials	$ **270,580**	$ 95,061
Work in progress	**147,260**	49,567
Finished goods	**31,559**	47,314
	$ **449,399**	$ 191,942

During the three months ended March 31, 2013 $793,390 (three months ended March 31, 2012: $616,708) of inventory was expensed in cost of goods sold, and $78,443 (three months ended March 31, 2012: $32,504) of inventory was used in internal development projects and expensed in product development and clinical trial expenses. All the inventories are pledged as security for the long-term debt of the Company (see Note 12).