Neovasc Inc.

Management's Discussion and Analysis

Form 51-102F1

FOR THE YEAR ENDED DECEMBER 31, 2012 AND 2011

Q4 2012

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

This discussion and analysis covers the audited consolidated financial statements of Neovasc Inc. (the "Company" or "Neovasc") for the year ended December 31, 2012 and 2011.

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, 2012 (included as part of Neovasc Inc.'s annual filing).

FORWARD-LOOKING STATEMENTS

This discussion and analysis, contains forward-looking statements that are not based on historical fact, including without limitation statements containing the words "believes", "may", "plan", "will", "estimate", "continue", "anticipates", "intends", "expects", and similar expressions, including the negative of such expressions. These statements are only predictions.

Forward-looking statements and information should be considered carefully. Undue reliance should not be placed on forward-looking statements and information as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements and information involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements and information will not occur and may cause actual results or events to differ materially from those anticipated in such forward-looking statements and information. The assumptions made by Neovasc include the ability of the Company to obtain and enforce timely patent protection for its technologies, the development of products; the timing of receipt of regulatory approvals; the sufficiency of budgeted expenditures in carrying out planned activities; and the availability and cost of labour and services (see 'Risks and Uncertainties').

More particularly and without limitation, this discussion and analysis contains forward-looking statements and information concerning the potential of Neovasc and the timing of market acceptance of the Company's products.

There are also other factors that may cause the actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements and information. Such factors include, among others, the stage of development, additional capital requirements, the impact of the global economic downturn, the ability to develop, manufacture and commercialize its products in a cost-effective manner, the ability to integrate newly-acquired businesses and the ability to protect Neovasc's intellectual property.

Neovasc disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements or information contained herein to reflect future results, events or developments, except as required by law.

All financial information is prepared in accordance with International Financial Reporting Standards ("IFRS") and is expressed in Canadian dollars.

Date: April 29, 2013

OVERVIEW

Description of the Business

Neovasc Inc. 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.

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

In May 2003, Neovasc acquired Angiometrx Inc. ("ANG"). ANG developed a technology called the Metricath, a catheter-based device that allowed clinicians to measure artery and stent size and confirm stent deployment during interventional treatment of coronary and peripheral artery disease. In 2009, Neovasc ceased all activities related to Metricath.

In July 2008, Neovasc acquired two pre-commercial vascular device companies based in Israel: Neovasc Medical Ltd. ("Neovasc Medical") and B-Balloon Ltd. ("B-Balloon"). Neovasc Medical developed and owned intellectual property related to a novel catheter-based treatment for refractory angina, a debilitating condition resulting from inadequate blood flow to the heart muscle. Refractory angina affects millions of patients and at present there is no effective cure. B-Balloon developed certain products intended to solve problems encountered by physicians when attempting to place vascular stents at locations where an artery branches from the aorta (the "ostium") or where an artery splits into multiple branches (a "bifurcation"). Currently Neovasc is not developing any of the B-Balloon technologies and is focusing its later stage product development efforts on the Neovasc Medical treatment for refractory angina.

In late 2009, Neovasc started initial activities to develop novel technologies for catheter-based treatment of mitral valve disease. Based on the early positive results of these activities, the Company launched a program to develop the Tiara transcatheter mitral valve.

Product Portfolio

Peripatch Products

Neovasc manufactures *PeriPatch*™ ("Peripatch"), an advanced biological tissue product that is manufactured from pericardium, which is the protective sac that surrounds the heart of an animal. Neovasc uses its proprietary processes to convert raw pericardial tissue from animal sources into sheets of implantable tissue that can be incorporated into third-party medical devices (for example, for use as the material for artificial heart valve leaflets or as a covering on a vascular stent). Peripatch tissue retains the mechanical characteristics of natural tissue and is readily incorporated into the body without rejection. Peripatch tissue was originally developed to fabricate artificial heart valves and has a 20-year history of successful implantation for heart valve and other surgical applications. Peripatch tissue can be manufactured to meet the mechanical and biological characteristics required for a wide variety of applications, such as aortic heart valve leaflets.

The product line includes Peripatch surgical patches which are rectangular patches made from bovine (cow) tissue, applied as internal bandages to repair weak or damaged organs or vessels. These are typically supplied sterile to physicians who then use the patches in surgical procedures. On October 31, 2012, Neovasc finalized its agreement with LeMaitre Vascular, Inc. (Burlington, MA) ("LeMaitre") allowing LeMaitre to exercise its option to purchase certain specific rights to Neovasc's biological vascular surgical patch technology on an accelerated basis. Under the terms of the sale agreement LeMaitre is permitted to use the Peripatch technology for the sole purpose of manufacturing surgical patches that it markets as its XenoSure™ surgical patch product line. Neovasc will continue to supply LeMaitre with surgical patches until LeMaitre is able to receive appropriate regulatory approvals and start manufacture of the surgical patches themselves, anticipated towards the end of 2013. At that time Neovasc will cease manufacture of all surgical patches.

The Company also provides a range of custom Peripatch products to industry customers for incorporation into their own products such as heart valves, covered stents and other specialty cardiovascular devices. These include Peripatch tissue fabricated from bovine, equine and porcine sources and offered in a wide variety of shapes and sizes. Neovasc works

closely with its industry customers to develop and supply tissue to meet their specific needs. This often includes providing tissue in custom shapes or molded to 3-D configurations. The Company also provides product development and specialized manufacturing services related to Peripatch tissue-based products such as transcatheter heart valves.

Regulatory Status
Peripatch made from bovine tissue is cleared for sale in the United States, the European Union and Canada. The Peripatch made from equine tissue is approved for sale in the European Union and in Canada. A number of third-party products which incorporate Peripatch tissue are approved for sale or have pending approvals in various markets. There is no assurance that these approvals for third-party products will be obtained.

Neovasc Reducer
The Neovasc Reducer™ (the "Reducer") is a treatment for patients with refractory angina. Refractory angina patients have severe, debilitating chest pain due to insufficient blood supply to the heart muscle, or myocardium, which is not amenable to revascularization. The pain associated with refractory angina can make it difficult for patients to engage in routine activities, such as walking or climbing stairs. Using a simple catheter-based procedure, the Reducer is implanted in the coronary sinus, the major blood vessel that sends de-oxygenated blood from the heart muscle back to systemic circulation. The Reducer has been clinically demonstrated to provide significant relief of chest pain in refractory angina patients. There are approximately 1,000,000 new patients each year in the United States and Europe with refractory angina who are potential candidates for the Reducer, either because they cannot be revascularized or because they are otherwise poorly managed using conventional medical therapies. These patients represent a substantial annual market opportunity for the Reducer product. The initial target market for the Reducer is patients presenting with refractory angina with no other available treatment options. Once physicians have adopted Reducer for use in these refractory patients, it is expected that there will be a natural spillover into the broader recurrent angina market, which represents a substantially larger patient population.

The Reducer is an hourglass-shaped, balloon-expandable, stainless steel, bare metal "stent-like" device, which is implanted in the coronary sinus, creating a restriction in venous outflow from the myocardium. It is implanted using conventional percutaneous techniques. The Reducer is provided sterile and pre-loaded on a balloon catheter system. The system is 9F sheath compatible and operates over a .035" guide wire. The implantation procedure is quick and requires minimal training. Once guide wire access to the coronary sinus is achieved, implantation typically takes less than 10 minutes.

Following implantation, the Reducer is incorporated into the endothelial tissue and creates a permanent (but reversible) narrowing in the coronary sinus. The coronary sinus is narrowed from a typical diameter of 10-12mm to approximately 3mm at the site of implantation. This narrowing slightly elevates the venous outflow pressure, which restores a more normal ratio of epicardial to endocardial blood flow between the outer and inner layers of the ischemic areas of the heart muscle. This results in improved perfusion of the endocardium, which helps relieve ischemia and chest pain. The physiological mechanism behind this effect is well documented in medical literature.

The clinical utility of this approach is demonstrated by a number of analogous approaches used in the past that achieved excellent clinical outcomes for angina patients by constricting or intermittently blocking the coronary sinus to improve perfusion to the heart muscle. However, these therapies required the use of highly invasive surgery or leaving a catheter in the heart for a prolonged period, making them impractical or clinically unacceptable for use in modern medical practice. The Reducer was developed to deliver this therapy in a safe, simple and effective manner via a catheter that is consistent with contemporary medical practice.

The Reducer has demonstrated excellent results in multiple animal studies and in a clinical trial of 15 patients suffering from chronic refractory angina who were followed for three years after implantation. The six-month results from this clinical trial were published in the *Journal of the American College of Cardiology* and three-year follow-up data was presented at the annual scientific meeting of the American College of Cardiology in March 2010. In this clinical trial, implantation of the Reducer resulted in significant clinical improvements in stress test and perfusion measurements, as well as in overall quality of life in the majority of the patients. These improvements were maintained for the three years of the study, which also indicated that the Reducer appeared safe and well tolerated in these patients.

Regulatory Status
The Reducer is approved for sale in Europe having received CE mark designation in November 2011. In preparation for product launch, Neovasc has completed development of the commercial-generation Reducer and the product is currently being transferred to commercial scale manufacture. The Company is presently conducting a clinical trial named "COSIRA" (**Co**ronary **Si**nus Reducer for Treatment of **R**efractory **A**ngina) that is expected to provide data to support broad commercialization of the Reducer product. COSIRA is a double-blinded, randomized, sham controlled, multicentre trial of approximately 124 patients with an expected eight to 10 clinical investigation sites. Patient enrollment is expected to be completed during the second quarter of 2013. The Company has also initiated clinical registries in Europe and Israel to collect additional clinical data from patients treated with the Reducer. Data from the COSIRA trial and the patient registries is expected to provide critical support for adoption and use of the Reducer product in Europe. Neovasc is presently developing a US regulatory approval strategy that will address the requirement for a larger randomized clinical trial, which is mandatory in the US. US marketing approval is expected in about two to four years. There is no assurance that US regulatory approval will be granted in the time frame anticipated by management, or granted at any time in the future.

Neovasc Tiara
In Q2 2011 the Company formally initiated a new project to develop the Neovasc Tiara™ ("Tiara"), a product for treating mitral valve disease. The Tiara is in preclinical development to provide a minimally invasive transcatheter device for the millions of patients who experience mitral regurgitation as a result of mitral heart valve disease. Mitral regurgitation is often severe and can lead to heart failure and death. Unmet medical need in these patients is high. Currently, conventional surgical treatments are only appropriate for about 20% of these patients since the majority are too old or frail to undergo conventional valve replacement procedures. There are approximately four million patients suffering with significant mitral regurgitation in the US. The Tiara is an early stage, preclinical program and prototype devices are currently undergoing evaluation in animal and bench models. Neovasc believes it has developed distinctive solutions to the difficulties of developing a safe and effective transcatheter mitral valve device, and early results have been promising. Nonetheless, many challenges remain.

Additional Products and Third-Party Sales
Neovasc provides consulting and original equipment manufacturing services to other medical device companies when these services fall within the scope of its expertise and capabilities. These activities are substantially focused on providing specialized development and manufacturing services for industry customers who incorporate the Company's Peripatch tissue into their vascular device products such as heart valves. The goal of these activities is to drive near-term revenues as well as support development of a long-term revenue stream through the ongoing provision of tissue and manufacturing services to customers with commercially successful devices that incorporate Neovasc tissue. Revenue earned from various contract agreements varies throughout the year depending on customer needs.

Clinical Trials
The Company is presently in the process of obtaining the clinical trial data required to support European commercial launch of the Reducer product. The COSIRA trial which commenced in September 2010 is expected to generate data to support commercialization, as well as additional regulatory applications. The Company is also enrolling patients receiving the Reducer product in clinical registries in Europe and Israel, with the expectation that data from these registries will support wider adoption and use of the Reducer in refractory angina patients.

Product Development
Product development at the Company is presently focused on completing commercialization of the Reducer as well as early stage development work on the Tiara. The Company is also undertaking product development work under contract for third-parties. These third-party projects are typically focused on supporting the development of products that incorporate Peripatch tissue. These activities generate both near-term revenues from consulting activities for Neovasc and also are expected to drive longer-term growth as a result of the revenues that will result from future commercial sales of new products incorporating the Peripatch tissue, as well as the related manufacturing services the Company will provide for these customers once their products reach the market. The Company may also investigate other potential new internal projects that leverage the Company's existing technologies, infrastructure and expertise.

TRENDS, RISKS AND UNCERTAINTIES

The Company has incurred operating losses of $351,368 for the year ended December 31, 2012 (2011: $3,860,176) and has a deficit of $71,343,753 at December 31, 2012 compared to a deficit of $70,992,385 as at December 31, 2011. As at December 31, 2012 the Company had $5,861,120 cash. In addition, the Company anticipates the receipt of approximately $2.9 million from warrants that are in the money and that are due to expire on August 16, 2013, approximately $900,000 from options that are in the money and that are due to expire on October 31, 2013 and $345,000 from LeMaitre Vascular Inc. on October 29, 2013. The Company believes it has sufficient funds for the next 12 months but further into the future the Company is dependent on the profitable commercialization of its products or obtaining additional debt or equity financing to fund ongoing operations until profitability is achieved. The current economic crisis that has significantly tightened the credit and equity markets may result in required funds not being available to the Company at the time needed or on terms acceptable to the Company and may also reduce demand for the Company's products.

Neovasc has a limited operating history which makes it difficult to predict how its business will develop or what its future operating results will be. 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.

Neovasc is subject to risks and uncertainties associated with operating in the life sciences industry and as a company engaged in significant development, regulatory, production and commercialization activity. Neovasc 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 its business.

Operating risks include but are not limited to: market acceptance of the Company's technologies and products; the Company's ability to obtain and enforce timely patent protection of its technologies and products; the Company's ability to develop, manufacture and commercialize its products cost-effectively and according to the 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.

FOREIGN OPERATIONS

The majority of the Company's revenues are derived from product sales in the United States and Europe, primarily denominated in United States dollars and Euros, while the majority of the Company's costs are denominated in Canadian dollars. The Company expects that foreign currency denominated international sales will continue to account for a significant portion of its revenues. Consequently, a decrease in the value of a relevant foreign currency in relation to the Canadian dollar will have an adverse effect on the Company's results of operations, with lower than expected revenue amounts and gross margins being reported in the Company's Canadian dollar financial statements. In addition, any decrease in the value of the United States dollar or Euro occurring in between the time a sale is consummated and the time payment is received by Neovasc will lead to a foreign exchange loss being recognized on the foreign-currency denominated trade account receivable. The fluctuation of foreign exchange may impose an adverse effect on the Company's results of operations and cash flows in the future. Additionally, Neovasc 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, Neovasc 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 year ended December 31, 2012 and 2011.

DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

Results for the years ended December 31, 2012 and 2011 follow:

Loss

The losses for the year ended December 31, 2012 were $351,368, or $0.01 basic and diluted loss per share, as compared with a loss of $3,860,176 or $0.09 basic and diluted loss per share for the comparable period in 2011. On October 31, 2012, Neovasc finalized its agreement with LeMaitre Vascular Inc. ("LeMaitre") allowing LeMaitre to exercise its option to purchase certain specific rights to Neovasc's biological vascular surgical patch product technology on an accelerated basis, at an agreed price of US$4.6 million. Under the terms of the amended agreement, Neovasc has received US $4.255 million from LeMaitre, with the balance payable one year after closing. The gain from sale of license was $4,598,160.

Revenues

Revenues increased 49% year-over-year to $7,819,154 for the year ended December 31, 2012, compared to revenues of $5,255,761 for the same period in 2011.

Product sales for the year ended December 31, 2012 were $3,264,851, compared to $1,785,324 in the same period of 2011, representing an increase of 83%. The increase in product sales primarily reflects higher demand from LeMaitre, who distributes the Company's surgical strips and patches and is achieving higher penetration in both the North American and European markets. After the sale of license (as discussed in the "Loss" section), Neovasc will continue to supply LeMaitre with surgical patches until LeMaitre is able to receive appropriate regulatory approvals and start manufacture of the surgical patches themselves, anticipated towards the end of 2013. At that time, Neovasc will cease manufacture of all surgical patches.

Contract manufacturing revenues for the year ended December 31, 2012 were $2,005,058, compared to $1,809,448 in the same period in 2011, representing an increase of 11%. The increase in contract manufacturing revenues reflects the Company's success in attracting more contract manufacturing customers as well as larger orders from existing customers as they advance their new product development programs.

Revenues from consulting services for the year ended December 31, 2012 were $2,549,245, compared to $1,660,989 in the same period in 2011, representing an increase of 53%. The Company's consulting service revenues are contract-driven and they can fluctuate from quarter to quarter and year to year as current projects are completed and new projects start. The Company hopes and anticipates that it will be able to convert more of its current consulting services customers, whose products are currently in product development and clinical trials, into contract manufacturing customers as they commercialize their own products, but this process is dependent on the product development and regulatory success of our existing customers and revenues are therefore difficult to project.

Where possible the Company updates its charge out rates and product prices on an annual basis to reflect the increase in the cost of goods sold and maintain its margins. Most customer contracts include a mechanism to calculate the price increase or to limit the maximum increase allowable each year.

Cost of Goods Sold

The cost of goods sold for the year ended December 31, 2012 were $4,640,302, as compared to $3,192,976 for the same period in 2011. The overall gross margin for 2012 was 41%, compared to 39% gross margin for the same period in 2011. The improvement of gross margin reflected the Company's effort to strengthen margins, including implementing further

manufacturing efficiencies, reviewing pricing strategies for certain products and focusing on expanding sales of higher margin product lines.

Expenses
Total expenses for the year ended December 31, 2012 were $8,107,079, as compared to $5,945,844 for the same period in 2011, representing an increase of $2,161,235 or 36%. Of these increases, non-cash share-based payments account for an increase of $623,572. In 2011 and 2012, the officers and directors of Neovasc were awarded a fixed number of options under the Company's established remuneration and incentive plans. While the actual number of options granted in each year was equivalent, under the Black Scholes model used to value the options, the higher price of the Company's shares in 2012 produced a higher overall valuation of the options issued, and therefore resulted in a higher non-cash charge to the income statement in 2012. Net of these non-cash share-based payments, total expenses increased $1,537,663, substantially due to an increase of $1,228,724 in clinical trial and product development expenses for the Company's two new product development programs and an increase of $334,561 in general and administrative expenses as corporate and strategic activities accelerate in line with revenue growth and product development advancements.

Selling expenses for the year ended December 31, 2012 were $169,073, as compared to $192,355 for the same period in 2011. The Company is continuing to maintain relatively constant and modest selling and marketing costs while it focuses on growing its business-to-business revenue streams.

General and administrative expenses for the year ended December 31, 2012 were $3,957,950, as compared to $3,128,721 for the same period of 2011, representing an increase of $829,229, or 27%. The increase in general and administrative expenses was primarily due to an increase of $494,668 in non-cash share-based payments and an increase of $334,561 in other expenses as corporate and strategic activities accelerate in line with revenue growth and product development advancements.

Product development and clinical trial expenses for the year ended December 31, 2012 were $3,980,056, as compared to $2,624,768 for the same period in 2011, representing an increase of $1,355,288, or 52%. The increase in product development and clinical trial expenses was primarily due to an increase of $126,564 in non-cash share-based payments and an increase of $1,228,724 in other expenses as the Company invested in its two major new product initiatives: the COSIRA clinical trial for the Reducer and the preclinical Neovasc Tiara mitral valve development program.

The Company's expenses are subject to inflation and cost increases. Salaries and wages have increased on average by 3% between the year ended December 31, 2012 and the comparable period in 2011. The Company has not seen a significant increase in the price of any of the components used in the manufacture of its products and services.

On October 31, 2012, Neovasc finalized its agreement with LeMaitre Vascular allowing LeMaitre to exercise its option to purchase certain specific rights to Neovasc's biological vascular surgical patch product technology on an accelerated basis, at an agreed price of US $4.6 million. Under the terms of the amended agreement, Neovasc has received US $4.255 million from LeMaitre, with the balance payable one year after closing.

Result for the quarter ended December 31, 2012 and 2011 follow:

Profit or Loss
The net profit for the quarter ended December 31, 2012 was $3,637,192, or $0.08 basic earnings per share and $0.07 diluted earnings per share, as compared with a loss of $979,430 or $0.02 basic and diluted loss per share for the comparative period in 2011. The profit incurred in the quarter ended December 31, 2012 was due to $4,598,160 gain from the sale of license (as discussed in the "Loss" section above).

Revenues
Revenues for the quarter ended December 31, 2012 were $2,465,615 compared to $1,780,389 for the same period in 2011, representing an increase of 38%, mostly due to a year-over-year increase in product sales and consulting services.

Cost of Goods Sold
The cost of goods sold for the quarter ended December 31, 2012 were $1,491,125, as compared to $1,179,364 in the same period in 2011. The costs rose in line with the increase of sales. The gross margin for the quarter ended December

31, 2012 was 40%, compared to 34% gross margin for the same period in 2011. The comparative gross margin in the fourth quarter of 2011 was impacted by a number of adverse year-end inventory adjustments.

Expenses
Total expenses for the quarter ended December 31, 2012 were $1,929,331, as compared to $1,571,068 in the same period in 2011, an increase of 23%. The increase is substantially due to an increase of $296,240 in clinical trial and product development expenses for the Company's two new product development programs, an increase of $72,576 in general and administrative expenses as corporate and strategic activities accelerate in line with revenue growth and product development advancements.

Selling expenses were $36,560 for the quarter ended December 31, 2012, compared to $47,113 in the comparable period in 2011. General and administrative expenses were $863,476 for the year ended December 31, 2012, as compared to $790,900 in the comparable period of 2011, representing an increase of 9%. The increase in general and administrative expenses was principally due to an increase in corporate and strategic activities accelerate in line with revenue growth and product development advancements. Research and development costs, including product development and clinical trial expenses were $1,029,295 for the quarter ended December 31, 2012, as compared to $733,055 in the comparable period of 2011, representing an increase of 40%. The increase in year-over-year research and development costs is principally due to increased investment in Neovasc's two major new product initiatives: the COSIRA clinical trial for the Neovasc Reducer and the development program for the Neovasc Tiara mitral valve program.

Annual Information
The following is a summary of selected financial information for the three fiscal years to December 31, 2012:

	2012	2011	2010
Sales	$ 7,819,154	$ 5,255,761	$ 4,358,825
Loss	(351,368)	(3,860,176)	(2,701,304)
Basic and diluted loss per share	(0.01)	(0.09)	(0.08)
Total assets	8,798,596	6,300,116	3,928,980
Total long-term liabilities	241,083	280,642	318,872
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, 2012:

	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
REVENUE				
Product sales	$ 866,866	$ 946,117	$ 742,226	$ 709,642
Contract manufacturing	677,695	527,557	458,359	341,447
Consulting services	921,054	532,266	434,023	661,902
	2,465,615	2,005,940	1,634,608	1,712,991
COST OF GOODS SOLD	1,491,125	1,275,096	994,809	879,272
GROSS PROFIT	974,490	730,844	639,799	833,719
EXPENSES				
Selling	36,560	40,503	48,783	43,227
General and administrative	863,476	937,202	943,467	1,213,805
Product development and clinical trials	1,029,295	950,275	1,166,502	833,984
	1,929,331	1,927,980	2,158,752	2,091,016
OPERATING LOSS	(954,841)	(1,197,136)	(1,518,953)	(1,257,297)
OTHER INCOME (EXPENSE)	4,592,033	(9,778)	2,598	(7,994)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	$ 3,637,192	$ (1,206,914)	$ (1,516,355)	$ (1,265,291)
BASIC AND DILUTED LOSS PER SHARE	$ 0.08	$ (0.03)	$ (0.03)	$ (0.03)

	December 31, 2011	September 31, 2011	June 30, 2011	March 31, 2011
REVENUE				
Product sales	$ 665,034	$ 391,197	$ 178,412	$ 550,681
Contract manufacturing	755,770	528,467	234,960	290,251
Consulting services	359,585	506,383	466,033	328,988
	1,780,389	1,426,047	879,405	1,169,920
COST OF GOODS SOLD	1,179,364	936,879	410,957	665,776
GROSS PROFIT	601,025	489,168	468,448	504,144
EXPENSES				
Selling expenses	47,113	48,154	49,842	47,246
General and administrative expenses	790,900	774,829	624,262	938,730
Product development and clinical trials expenses	733,055	627,790	806,059	457,864
	1,571,068	1,450,773	1,480,163	1,443,840
OPERATING LOSS	(970,043)	(961,605)	(1,011,715)	(939,696)
OTHER INCOME (EXPENSE)	(9,387)	70,098	(4,070)	(33,758)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	$ (979,430)	$ (891,507)	$ (1,015,785)	$ (973,454)
BASIC AND DILUTED LOSS PER SHARE	$ (0.02)	$ (0.02)	$ (0.02)	$ (0.02)

Revenues have been cyclical in nature, but show an increasing trend from quarter to quarter. The slightly unpredictable nature of revenues is expected as third party development projects are difficult to predict and may start or stop suddenly depending on the needs of the customer.

Selling expenses have remained relatively consistent from 2011 as efforts have been focused on servicing our existing customers. General and administrative expense reached a peak in the first quarter of 2012 mainly due to stock-based compensation expense of $632,380 for options granted and vested immediately in the quarter. Product development and clinical trial costs peaked in the second quarter of 2012 due to the COSIRA clinical trial and the preclinical Tiara project expenses.

DISCUSSION OF LIQUIDITY AND CAPITAL RESOURCES

Neovasc finances its operations and capital expenditures with cash generated from operations, lines of credit, long-term debt and equity financings. At December 31, 2012, the Company had cash and cash equivalents of $5,861,120, as compared to cash and cash equivalents of $2,404,510 at December 31, 2011.

Cash used in operating activities for the year ended December 31, 2012 was $2,037,440, as compared to $2,012,409 for the same period in 2011. The slight increase in cash used for the year ended December 31, 2012, compared to the same period of 2011, is principally due to an increase in operating expenses offset by an increase in cash generated by working capital items. For the year ended December 31, 2012, operating expenses were $2,465,923, compared to $2,056,882 for the same period in 2011, as more expenses were incurred in research and development activities. In 2012, working capital items generated cash of $410,390, compared to working capital items-generated cash of $49,246 for the same period in 2011.

Net cash provided by investing activities was $5,445,002 for the year ended December 31, 2012, compared to cash used in financing activities of $1,669,835 for the year ended December 31, 2011. During the year ended December 31, 2012 a $1,504,290 investment in guaranteed investment certificates which matured on October 15, 2012 was re-classified as cash equivalents. In addition, $4,253,298 was received from LeMaitre Vascular Inc. as the first 92.5% of the proceeds from sale of license (as discussed in the "Loss" section). Net cash invested in capital assets was $312,586 for the year ended December 31, 2012, compared to net cash invested in capital assets of $165,545 for the same period in 2011. During 2012 and 2011, the Company continued to invest capital to expand its clean room and manufacturing facilities and research and development capabilities.

Net cash provided by financing activities was $49,048 for the year ended December 31, 2012, compared to cash provided by financing activities of $4,597,727 for the year ended December 31. During the year ended December 31, 2012, the liquid security agreement on long-term debt was removed and the restricted cash of US $40,000 was released. During the year ended December 31, 2011 the Company paid off its bank overdraft of $213,280. On August 16, 2011, the Company completed a non-brokered private placement of 4,720,500 equity units at the price of $1.00 per unit for aggregate gross proceeds of approximately $4,720,500. Each unit consists of one common share of Neovasc stock and one-half of one common share purchase warrant of Neovasc stock. Each whole warrant entitles the holder thereof to purchase one common share of Neovasc stock at the exercise price of $1.25 per share for a period of two years after the closing date of the offering. Share issue costs were $42,864. On January 17, 2011 and February 15, 2011, the Company issued 197,922 and 128,371 common shares, respectively, upon the exercise of warrants issued as part of the Company's February 2010 financing. Proceeds from the exercise of the 326,293 warrants amounted to $130,517. On December 5, 2012, the Company issued 25,000 common shares upon the exercise of warrants issued as part of the Company's August 2011 financing. Proceeds from the exercise of the 25,000 warrants amounted to $31,250.

The majority of the revenue and expenses of the Company are incurred in the parent and in one of its subsidiaries, Neovasc Medical Inc., both of which are Canadian companies. There are no significant restrictions on the transfer of funds between these entities and during the year the Company also had no complications in transferring funds to and from its subsidiaries in Israel.

The majority of the Company's cash and cash equivalents at year-end were denominated in United States dollars, as the proceeds from the sale of the license to LeMaitre Vascular Inc. was received in that currency. The Company is exposed to foreign currency fluctuations on $5,567,711 of its cash and cash equivalents held in United States dollars and European euros.

SUBSEQUENT EVENTS

On February 27, 2013 the Company approved amendments to the Company's stock option plan that, among other matters, increase the number of options exercisable into common shares available for grant by 1,148,081. These amendments remain subject to the approval of Neovasc shareholders at the next annual general meeting, as well as to the approval of the TSX Venture Exchange.

Also on February 27, 2013 Neovasc granted a total of 855,250 stock options (the "Options") to Neovasc directors, management and staff. The Options have an exercise price of $2.49, the equivalent to Neovasc's closing market price of

$2.49 on the date of the grant. The Options will vest as follows: (i) 350,000 immediately on the date of the grant; (ii) 152,000 on December 31, 2013, contingent upon management achieving certain performance milestones established by the board of directors; and (iii) 353,250 of which 20% vest immediately and 20% vest on each of the next four anniversaries of the date of grant. Of the 855,250 newly granted Options, 502,000 have been drawn from the increased option pool created as a result of the new stock option plan amendments and as such, remain subject to Neovasc receiving shareholder and TSX Venture Exchange approval prior to their exercise.

On April 24, 2013 warrant holders exercised 1,835,000 common share purchase warrants issued as part of the Company's August 2011 financing, resulting in proceeds of $2,293,750 to Neovasc. In that financing, Neovasc issued units that included 2,360,250 whole warrants entitling the holders to purchase one common share of Neovasc stock at a price of $1.25 for a period of up to two years after the close of the financing. Of the total available warrants from the August 2011 financing, 81% have been exercised by their holders. The remaining 457,750 warrants will expire on August 16, 2013, if they are not exercised before that date.

OUTSTANDING SHARE DATA

As at December 31, 2012, the Company had 45,827,040 common voting shares issued and outstanding. Further, the following securities are convertible into common shares of the Company: 7,767,787 stock options with a weighted average price of $0.85 and 2,335,250 share purchase warrants with a weighted average exercise price of $1.25. The fully diluted share capital of the Company at December 31, 2012 is 55,930,077.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

RELATED PARTY TRANSACTIONS

There were no transactions with related parties during the year ended December 31, 2012 and 2011, other than those compensation based payments disclosed in Note 21 of the financial statements.

PROPOSED TRANSACTIONS

The Company is not party to any transaction requiring additional disclosure.

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 International Financial Reporting Standards ("IFRS") 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 year ended December 31, 2012.

ADDITIONAL INFORMATION

Further information, including public disclosure filed with the applicable securities regulatory authorities, is available on the Company's public profile page at www.sedar.com.