Neovasc Inc.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012

(Expressed in Canadian dollars)

CONTENTS

NEOVASC INC.

Notice of No Auditor's 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	June 30, 2013	December 31, 2012 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents	6	**$ 5,467,777**	$ 5,861,120
Accounts receivable	7	**1,702,589**	1,248,271
Inventory	8	**436,415**	191,942
Prepaid expenses and other assets		**121,199**	29,891
Total current assets		**7,727,980**	7,331,224
Non-current assets			
Property, plant and equipment	9	**2,273,078**	1,467,372
Total non-current assets		**2,273,078**	1,467,372
Total assets		**$ 10,001,058**	$ 8,798,596
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Bank overdraft	10	**$ 80,110**	$ -
Accounts payable and accrued liabilities	11	**1,501,735**	1,067,283
Current portion of long-term debt	12	**43,066**	42,540
Total current liabilities		**1,624,911**	1,109,823
Non-current liabilities			
Long-term debt	12	**220,698**	241,083
Total non-current liabilities		**220,698**	241,083
Total liabilities		**1,845,609**	1,350,906
Equity			
Share capital	13	**72,914,135**	70,421,185
Contributed surplus	13	**9,683,616**	8,370,258
Deficit		**(74,442,302)**	(71,343,753)
Total equity		**8,155,449**	7,447,690
Total liabilities and equity		**$ 10,001,058**	$ 8,798,596

NEOVASC INC.

Interim Consolidated Statements of Comprehensive Loss (Unaudited)

For the three and six months ended June 30,
(Expressed in Canadian dollars)

	Notes	Three months ended June 30,		Six months ended June 30	
		2013	2012	**2013**	2012
REVENUE					
Product sales		**$ 766,834**	$ 742,226	**$ 1,356,879**	$ 1,451,868
Contract manufacturing		**521,361**	458,359	**1,096,510**	799,806
Consulting services		**1,504,620**	434,023	**2,348,806**	1,095,925
	15	**2,792,815**	1,634,608	**4,802,195**	3,347,599
COST OF GOODS SOLD	16	**1,632,155**	994,809	**2,867,436**	1,874,081
GROSS PROFIT		**1,160,660**	639,799	**1,934,759**	1,473,518
EXPENSES					
Selling expenses	16	**31,685**	48,783	**52,692**	92,010
General and administrative expenses	16	**928,663**	943,467	**2,654,395**	2,157,272
Product development and clinical trials expenses	16	**1,613,609**	1,166,502	**2,602,180**	2,000,486
		2,573,957	2,158,752	**5,309,267**	4,249,768
OPERATING LOSS		**(1,413,297)**	(1,518,953)	**(3,374,508)**	(2,776,250)
OTHER INCOME/(EXPENSE)					
Interest income		**-**	10,499	**-**	21,833
Interest expense		**(2,351)**	(2,666)	**(4,711)**	(5,416)
Gain/(loss) on foreign exchange		**177,255**	(5,235)	**280,670**	(21,813)
		174,904	2,598	**275,959**	(5,396)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		**$ (1,238,393)**	$ (1,516,355)	**$ (3,098,549)**	$ (2,781,646)
LOSS PER SHARE					
Basic and diluted loss per share	18	**$ (0.03)**	$ (0.03)	**$ (0.07)**	$ (0.06)

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		165,553	(151,330)	-	14,223
Share-based payments		-	1,299,357	-	1,299,357
Transaction with owners during the period		**165,553**	**1,148,027**	**-**	**1,313,580**
Loss and comprehensive loss for the period		**-**	**-**	**(2,781,646)**	**(2,781,646)**
Balance at June 30, 2012		**$ 70,385,934**	**$ 7,306,461**	**$ (73,774,031)**	**$ 3,918,364**
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)	2,446,875	-	-	2,446,875
Issue of share capital on exercise of options	13(b)	46,075	(22,363)	-	23,712
Share-based payments	13(b)	-	1,335,721	-	1,335,721
Transaction with owners during the period		2,492,950	1,313,358	-	3,806,308
Loss and comprehensive loss for the period		**-**	**-**	**(3,098,549)**	**(3,098,549)**
Balance at June 30, 2013		**$ 72,914,135**	**$ 9,683,616**	**$ (74,442,302)**	**$ 8,155,449**

NEOVASC INC.
Interim Consolidated Statements of Cash Flows (Unaudited)
For the three and six months ended June 30,
(Expressed in Canadian dollars)

	Notes	Three months ended June 30,		Six months ended June 30	
		2013	2012	**2013**	2012
OPERATING ACTIVITIES					
Loss for the period		**$ (1,238,393)**	$ (1,516,355)	**$ (3,098,549)**	$ (2,781,646)
Adjustments for:					
Depreciation	16	**51,330**	33,973	**87,326**	60,763
Share-based payments	16	**299,254**	539,755	**1,335,721**	1,299,357
Interest income		**-**	(10,499)	**-**	(21,833)
Interest expense		**2,351**	2,666	**4,711**	5,416
		(885,458)	(950,460)	**(1,670,791)**	(1,437,943)
Net change in non-cash working capital items:					
Accounts receivable		**(462,436)**	48,960	**(454,318)**	200,127
Inventory		**12,984**	24,527	**(244,473)**	(219,547)
Prepaid expenses and other assets		**(48,137)**	(11,998)	**(91,308)**	(30,297)
Accounts payable and accrued liabilities		**235,140**	260,528	**434,452**	242,836
		(262,449)	322,017	**(355,647)**	193,119
Interest paid and received:					
Interest received		**-**	10,499	**-**	21,833
Interest paid		**(2,351)**	(2,666)	**(4,711)**	(5,416)
		(2,351)	7,833	**(4,711)**	16,417
		(1,150,258)	(620,610)	**(2,031,149)**	(1,228,407)
INVESTING ACTIVITES					
Decrease in investments in guaranteed investment certificates		**-**	1,008,455	**-**	32
Purchase of property, plant and equipment		**(578,397)**	(98,535)	**(893,032)**	(192,441)
		(578,397)	909,920	**(893,032)**	(192,409)
FINANCING ACTIVITIES					
Increase/(Decrease) in bank overdraft		**(46,988)**	145,927	**80,110**	145,927
Increase in restricted cash & cash equivalents		**-**	(1,076)	**-**	(200)
Repayment of long-term debt		**(9,934)**	(9,619)	**(19,859)**	(19,154)
Proceeds from exercise of warrants		**2,393,750**	-	**2,446,875**	-
Proceeds from exercise of options		**-**	9,898	**23,712**	14,223
		2,336,828	145,130	**2,530,838**	140,796
NET CHANGE IN CASH AND CASH EQUIVALENTS		**608,173**	434,440	**(393,343)**	(1,280,020)
CASH AND CASH EQUIVALENTS					
Beginning of the period		**4,859,604**	690,050	**5,861,120**	2,404,510
End of the period		**$ 5,467,777**	$ 1,124,490	**$ 5,467,777**	$ 1,124,490
Represented by:					
Cash	6	**$ 5,467,777**	$ 117,750	**$ 5,467,777**	$ 117,750
Cashable guaranteed investment certificates		**-**	1,006,740	**-**	1,006,740
		$ 5,467,777	$ 1,124,490	**$ 5,467,777**	$ 1,124,490

See Accompanying Notes to the Interim Consolidated Financial Statements

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 June 30, 2013 and December 31, 2012 and for the three and six months ended June 30, 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 and six months ended June 30, 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 Tiara Inc, 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 and six months ended June 30, 2013 and 2012, 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:

	June 30, 2013	December 31, 2012
Equity	**$ 8,155,449**	$ 7,447,690
Long-term debt	**263,764**	283,623
	$ 8,419,213	$ 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 June 30, 2013 and December 31, 2012, the Company was in compliance with all financial covenants associated with its long-term debt.

For the three and six months ended June 30, 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 51% and 37% of the revenue for six months ended June 30, 2013 (six months ended June 30, 2012: 63% and 34% respectively). A 5% change in the foreign exchange rates for United States and European Union currencies will result in approximately $120,000 and $90,000 change in revenues for six months ended June 30, 2013 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 $26,000 and $26,000 respectively and a change in foreign currency denominated accounts payable of approximately $14,000 and $12,000 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 six months ended June 30, 2013 by approximately $1,560 (six months ended June 30, 2012: $1,600) and inversely change the amount of principal repaid by the same amount.

(c) Liquidity risk

As at June 30, 2013 the Company had $5,467,777 in cash and cash equivalents. The cash use in operations during the three and six months ended June 30, 2013 was $1,150,258 and $2,031,149, respectively.

As at June 30, 2013 the Company had working capital of $6,103,069 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 June 30, 2013: $1,291,619 (December 31, 2012: $844,850).

As at June 30, 2013, the Company had $31,491 (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 $13,486 of trade accounts receivable which management believes may be impaired (December 31, 2012: $nil). During the three and six months ended June 30, 2013 and 2012 the Company wrote down $nil of accounts receivable owed by customers.

(Expressed in Canadian dollars)

6. CASH AND CASH EQUIVALENTS

	June 30, 2013	December 31, 2012
Canadian dollars	$ **150,176**	$ 293,409
United States dollars	**4,962,139**	5,287,649
European euros	**355,462**	280,062
	$ **5,467,777**	$ 5,861,120

7. ACCOUNTS RECEIVABLE

	June 30, 2013	December 31, 2012
Trade receivables	$ **1,291,619**	$ 844,850
Allowance for doubtful accounts	**(13,486)**	-
Net trade receivables	**1,278,133**	844,850
Receivable from LeMaitre Vascular, Inc.	**344,862**	344,862
Other receivables	**79,594**	58,559
	$ **1,702,589**	$ 1,248,271

At June 30, 2013, the Receivable from LeMaitre Vascular Inc. ("LeMaitre") represents amounts due on October 31, 2013, 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:

	June 30, 2013	December 31, 2012
Not past due	$ **1,260,128**	$ 836,144
Past due 0 - 30 days	**-**	-
Past due 31 - 60 days	**2,414**	8,706
Past due 61 - 90 days	**15,591**	-
Past due 91 - 120 days	**-**	-
Past due more than 121 days	**13,486**	-
	$ **1,291,619**	$ 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:

	June 30, 2013	December 31, 2012
Balance, start of the period	$ **-**	$ 3,868
Amounts recorded during period	**13,486**	(3,868)
	$ **13,486**	$ -

8. INVENTORY

	June 30, 2013	December 31, 2012
Raw materials	$ **188,871**	$ 95,061
Work in progress	**215,113**	49,567
Finished goods	**32,431**	47,314
	$ **436,415**	$ 191,942

During the three and six months ended June 30, 2013 $883,075 and $1,676,465 (three and six months ended June 30, 2012: $703,984 and $1,320,692) of inventory was expensed in cost of goods sold, and $112,211 and $190,654 (three and six months ended June 30, 2012: $60,705 and 93,209) 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).

(Expressed in Canadian dollars)

9. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Leasehold Improvements	Production equipment	Computer hardware	Computer software	Office equipment	Total
COST								
Balance at January 1, 2012	$ 207,347	$ 1,175,978	$ -	$ 567,312	$ 177,193	$ 241,818	$ 162,024	$ 2,531,672
Additions	-	123,664	-	111,049	39,918	29,846	8,109	312,586
Balance at December 31, 2012	$ 207,347	$ 1,299,642	$ -	$ 678,361	$ 217,111	$ 271,664	$ 170,133	$ 2,844,258
Additions	-	572,090	61,826	109,162	75,963	35,709	38,282	893,032
Balance at June 30, 2013	**$ 207,347**	**$ 1,871,732**	**$ 61,826**	**$ 787,523**	**$ 293,074**	**$ 307,373**	**$ 208,415**	**$ 3,737,290**
ACCUMULATED DEPRECIATION								
Balance at January 1, 2012	$ -	$ 261,310	$ -	$ 474,739	$ 148,400	$ 223,596	$ 132,976	$ 1,241,021
Depreciation for the year	-	39,743	-	34,811	12,821	42,029	6,461	135,865
Balance at December 31, 2012	$ -	$ 301,053	$ -	$ 509,550	$ 161,221	$ 265,625	$ 139,437	$ 1,376,886
Depreciation for the period	-	20,119	11,523	25,904	13,289	11,607	4,884	87,326
Balance at June 30, 2013	**$ -**	**$ 321,172**	**$ 11,523**	**$ 535,454**	**$ 174,510**	**$ 277,232**	**$ 144,321**	**$ 1,464,212**
CARRYING AMOUNTS								
At December 31, 2012	$ 207,347	$ 998,589	$ -	$ 168,811	$ 55,890	$ 6,039	$ 30,696	$ 1,467,372
At June 30, 2013	**$ 207,347**	**$ 1,550,560**	**$ 50,303**	**$ 252,069**	**$ 118,564**	**$ 30,141**	**$ 64,094**	**$ 2,273,078**

All the property, plant and equipment were pledged as security for the long-term debt of the Company (see Note 12).

(Expressed in Canadian dollars)

10. BANK OVERDRAFT

	June 30, 2013	December 31, 2012
Per bank statement	$ **118,362**	$ -
Outstanding cheques	**(198,472)**	-
	$ **80,110**	$ -

The Company has an operating line of credit with a variable annual interest rate at prime plus 0.5%. The maximum line of credit is $200,000. The Company monitors the line of credit and ensures that there are sufficient funds to cover the outstanding cheques as they are presented at the bank without exceeding the line of credit limit.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2013	December 31, 2012
Trade payables	$ **919,692**	$ 646,042
Accrued liabilities	**558,058**	403,818
Other payables	**23,985**	17,423
	$ **1,501,735**	$ 1,067,283

All amounts are short-term. The net carrying value of trade payables is considered a reasonable approximation of fair value.

12. LONG-TERM DEBT

	June 30, 2013	December 31, 2012
Bank installment loan	$ **263,764**	$ 283,623
Less current portion	**(43,066)**	(42,540)
	$ **220,698**	$ 241,083

Repayments consist of 180 regular blended payments of $4,095 each month, including interest and principal, commencing on September 1, 2007 and ending on or before August 1, 2022. The loan agreement as amended on July 18, 2012, is collateralized by a first charge over the Company's land and buildings and a general security agreement over all personal property of the business now owned and all personal property acquired in the future. The loan bears interest at prime plus 0.5% per annum.

Principal maturities in the next five years and thereafter are approximately as follows:

	June 30, 2013	December 31, 2012
Year 1	$ **43,066**	$ 42,540
Year 2	**44,347**	43,855
Year 3	**45,423**	44,919
Year 4	**46,525**	46,009
Year 5	**47,654**	47,125
Thereafter	**36,749**	59,175
	$ **263,764**	$ 283,623

More information about the Company's exposure to interest rate and liquidity risk is given in Notes 5(b) and 5(c).

(Expressed in Canadian dollars)

13. SHARE CAPITAL

All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting.

(a) Authorized

Unlimited number of common shares without par value.
Unlimited number of preferred shares without par value.

(b) Issued and outstanding

	Common Shares Number		Common Shares Amount		Contributed Surplus
Balance, December 31, 2011	**45,712,649**	**$**	**70,220,381**	**$**	**6,158,434**
Issued for cash on exercise of warrants (i)	25,000		31,250		
Issued for cash on exercise of options	89,391		169,554		(154,009)
Share-based payments					2,365,833
Balance, December 31, 2012	**45,827,040**	**$**	**70,421,185**	**$**	**8,370,258**
Issued for cash on exercise of warrants (ii)	1,957,500		2,446,875		
Issued for cash on exercise of options	34,690		46,075		(22,363)
Share-based payments					1,335,721
Balance, June 30, 2013	**47,819,230**	**$**	**72,914,135**	**$**	**9,683,616**

(i) On December 12, 2012, the Company issued 25,000 common shares upon the exercise of warrants issued as part of the Company's August 2011 financing. Proceeds received from the exercise of the 25,000 warrants amounted to $31,250.

(ii) During the first six months of 2013, the Company issued 1,957,500 common shares, upon the exercise of warrants issued as part of the Company's August 2011 financing. Proceeds received from the exercise of the 1,957,500 warrants amounted to $2,446,875.

(Expressed in Canadian dollars)

13. SHARE CAPITAL (continued)

(c) Stock options

The Company adopted an equity-settled stock option plan under which the directors of the Company may grant options to purchase common shares to directors, officers, employees and service providers (the "optionees") of the Company on terms that the directors of the Company may determine within the limitations set forth in the stock option plan. Effective June 8, 2011, at the Annual General Meeting ("AGM"), the board of directors of the Company approved an amendment to the Company's incentive stock option plan to increase the number of options available for grant under the plan to 8,023,515, representing 20% of the number of common shares of the Company outstanding on June 8, 2011. 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 to 9,171,596 and this amendment was ratified by the shareholders at the AGM on June 18, 2013.

Options under the Company's stock option plan granted to directors may vest immediately and options granted to employees and officers vest 20% immediately on the grant date, and 20% on each of the next four anniversaries of the grant date. The directors of the Company have discretion within the limitations set forth in the stock option plan to determine other vesting terms on options granted to directors, officers, employees and others. The minimum exercise price of a stock option cannot be less than the applicable market price of the common shares on the date of the grant and the options have a maximum life of five years from the date of grant. The Company also assumed options from the acquisition of Neovasc Medical Ltd. and B-Balloon Ltd which are not the part of the Company's stock option plan. The following table summarizes stock option activity for the respective periods as follows:

	Number of options		Weighted average exercise price	Average remaining contractual life (years)
Options outstanding, January 1, 2012	**6,295,038**	**$**	**0.67**	**3.49**
Granted	1,609,850		1.44	
Exercised	(89,391)		0.17	
Forfeited	(46,000)		0.88	
Expired	(1,710)		0.20	
Options outstanding, December 31, 2012	**7,767,787**	**$**	**0.85**	**2.91**
Granted	900,250	$	2.50	
Exercised	(34,690)		0.68	
Forfeited	(2,348)		1.18	
Options outstanding, June 30, 2013	**8,630,999**	**$**	**1.02**	**2.65**
Options exercisable, June 30, 2013	**7,293,599**	**$**	**0.93**	**2.49**
Weighted average measurement date fair value of stock options awarded during the year.		$	2.22	

The following table lists the options outstanding at June 30, 2013 by exercise price:

	Exercise price	**Options outstanding**	**Weighted average remaining term (yrs)**	**Options exercisable**	**Weighted average remaining term (yrs)**
$	0.01	515,824	3.69	515,824	3.69
$	0.20-0.40	2,329,275	1.49	2,171,750	1.48
$	0.97-1.60	4,886,650	2.72	4,176,575	2.49
$	2.00 – 2.49	899,250	4.68	429,450	4.67
		8,630,999	2.65	7,293,599	2.49

The weighted average share price at the date of exercise for share options exercised for the six months ended June 30, 2013 was $0.68 (six months ended June 30, 2012: $0.17). During the three and six months ended June 30, 2013, the Company recorded $299,254 and $1,335,721, respectively, as compensation expense for share-based compensation awarded to eligible optionees (three and six months ended June 30, 2012: $539,755 and $1,299,357). The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the options at each measurement date using the following weighted average assumptions:

		2013		2012
Weighted average fair value	**$**	**2.22**	$	1.30
Dividend yield		**nil**		nil
Volatility		**139%**		145%
Risk-free interest rate		**1.25%**		3.00%
Expected life		**5 years**		5 years

(Expressed in Canadian dollars)

13. SHARE CAPITAL (continued)

(d) Warrants

	Number of warrants
Balance, January 1, 2012	**2,360,250**
Exercised (i)	(25,000)
Balance, December 31, 2012	**2,335,250**
Exercised (ii)	(1,957,500)
Balance, June 30, 2013	**377,750**

(i) On December 12, 2012, 25,000 warrants issued as part of the Company's August 2011 financing (see Note 13(b)(i)) were exercised. Proceeds received from the exercise of the 25,000 warrants amounted to $31,250.

(ii) During the first six months of 2013, the Company issued 1,957,500 common shares, upon the exercise of warrants issued as part of the Company's August 2011 financing (see Note 13(b)(ii)). Proceeds received from the exercise of the 1,957,500 warrants amounted to $2,446,875.

There were no performance conditions attached to the warrants and all the warrants vested upon issuance.

14. EMPLOYEE BENEFITS EXPENSE

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	**2013**	2012
Salaries and wages	**$ 1,148,291**	$ 799,806	**$ 2,154,584**	$ 1,532,563
Canadian pension plan and employment insurance	**64,037**	39,100	**130,300**	89,917
Contribution to defined contribution pension plan	**23,098**	19,046	**44,492**	38,058
Share-based payments	**299,254**	539,755	**1,335,721**	1,299,357
	$ 1,534,680	$ 1,377,707	**$ 3,665,097**	$ 2,959,895

15. SEGMENT INFORMATION

The Company's operations are in one business segment; the development, manufacture and marketing of medical devices. Each of the Company's product lines has similar characteristics, customers, distribution and marketing strategies, and are subject to similar regulatory requirements. Substantially all of the Company's long-lived assets are located in Canada. The Company carries on business in Canada. The Company earns revenue from sales to customers in the following geographic locations:

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	**2013**	2012
REVENUE				
United States	**$ 822,031**	$ 1,026,550	**$ 1,774,640**	$ 1,779,308
Europe	**1,907,352**	619,782	**2,955,428**	1,520,088
Israel	**63,432**	5,213	**72,127**	36,946
Canada	**-**	(16,937)	**-**	11,257
	$ 2,792,815	$ 1,634,608	**$ 4,802,195**	$ 3,347,599

Sales to the Company's four largest customers accounted for approximately 33%, 27%, 16% and 11% of the Company's sales for the three months ended June 30, 2013, and 31%, 28%, 15% and 12% of the Company's sales for the six months ended June 30, 2013. Comparatively, sales to the Company's three largest customers accounted for approximately 45%, 23%, and 12% of the Company's sales for the three months ended June 30, 2012, and 41%, 19%, and 18% of the Company's sales for the six months ended June 30, 2012.

(Expressed in Canadian dollars)

16. DEPRECIATION AND SHARE-BASED PAYMENTS

	For the three months ended June 30, 2013	2012	For the six months ended June 30, 2013	2012
COST OF GOODS SOLD				
Depreciation	**$ 5,557**	$ 4,371	**$ 10,542**	$ 7,154
Share-based payments	**35,406**	35,590	**86,292**	41,259
Other costs	**1,591,192**	954,848	**2,770,602**	1,825,668
TOTAL COST OF GOODS SOLD	**$ 1,632,155**	$ 994,809	**$ 2,867,436**	$ 1,874,081
EXPENSES				
Selling expenses				
Depreciation	**$ 138**	$ 177	**$ 275**	$ 177
Share-based payments	**2,429**	6,116	**4,825**	8,742
Other costs	**29,118**	42,490	**47,592**	83,091
	31,685	48,783	**52,692**	92,010
General and administrative expenses				
Depreciation	**19,738**	23,304	**34,546**	41,591
Share-based payments	**200,187**	347,627	**1,079,003**	1,013,609
Other costs	**708,738**	572,536	**1,540,846**	1,102,072
	928,663	943,467	**2,654,395**	2,157,272
Product development and clinical trials expenses				
Depreciation	**25,897**	6,121	**41,963**	11,841
Share-based payments	**61,232**	150,422	**165,601**	235,747
Other costs	**1,526,480**	1,009,959	**2,394,616**	1,752,898
	1,613,609	1,166,502	**2,602,180**	2,000,486
TOTAL EXPENSES	**$ 2,573,957**	$ 2,158,752	**$ 5,309,267**	$ 4,249,768
Depreciation per Statements of Cash Flows	**$ 51,330**	$ 33,973	**$ 87,326**	$ 60,763
Share-based payments per Statements of Cash Flows	**$ 299,254**	$ 539,755	**$ 1,335,721**	$ 1,299,357

(Expressed in Canadian dollars)

17. OPERATING LEASES

The Company entered into an agreement for additional office space. The agreement does not contain any contingent rent clauses, renewal or purchase options or escalation clauses. The term of the lease is 24 months commenced from October 1, 2012. The future minimum operating lease payments due over the next two years are as follows:

	As at June 30, **2013**	2012
Year 1	**$ 20,660**	$ -
Year 2	**6,887**	-
	$ 27,547	$ -

Lease payments recognized as an expense during the three and six months ended June 30, 2013 amount to $5,165 and $10,330, respectively.

18. LOSS PER SHARE

Both the basic and diluted loss per share have been calculated using the loss attributable to shareholders of the Company as the numerator. The weighted average number of common shares outstanding used for basic loss per share for the three and six months ended June 30, 2013 amounted to 47,324,670 and 46,599,612 shares, respectively (three and six months ended June 30, 2012: 45,779,496 and 45,758,320 shares).

	For the three months ended June 30,		**For the six months ended June 30,**	
	2013	2012	**2013**	2012
Weighted average number of common shares	**47,324,670**	45,779,496	**46,599,612**	45,758,320
Loss for the period	**(1,238,393)**	(1,516,355)	**(3,098,549)**	(2,781,646)
Basic loss per share	**$ (0.03)**	$ (0.03)	**$ (0.07)**	$ (0.06)

As the Company is currently operating at a loss no dilutive potential ordinary shares have been identified as the conversion would lead to a decrease in loss per share.

(Expressed in Canadian dollars)

19. RELATED PARTY TRANSACTIONS

The Company's key management personnel include members of the board of directors and executive officers. The Company provides salaries or cash compensation, and other non-cash benefits to directors and executive officers.

	For the three months ended June 30, 2013	For the three months ended June 30, 2012	For the six months ended June 30, 2013	For the six months ended June 30, 2012
Short-term employee benefits				
Employee salaries	**$ 180,062**	$ 167,500	**$ 376,875**	$ 335,000
Directors fees	**16,302**	15,390	**31,536**	30,377
Social security and medical care costs	**2,782**	2,406	**15,351**	13,928
	199,146	185,296	**423,762**	379,305
Post-employment benefits				
Contributions to defined contribution pension plan	**6,910**	6,282	**14,133**	12,563
	6,910	6,282	**14,133**	12,563
Share-based payments	**56,506**	191,045	**852,460**	771,700
	56,506	191,045	**852,460**	771,700
Total key management remuneration	**$ 262,562**	$ 382,623	**$ 1,290,355**	$ 1,163,568

20. AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the three and six months ended June 30, 2013 (including comparatives) were approved by the board of directors on August 13, 2013.

Alexei Marko, Director

Steven Rubin, Director