Neovasc Inc.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2012 AND 2011

(Expressed in Canadian dollars)

CONTENTS

Independent auditor's report

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To the shareholders of Neovasc Inc.

We have audited the accompanying consolidated financial statements of Neovasc Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity, and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Neovasc Inc. as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Vancouver, Canada

April 25, 2013

Chartered accountants

NEOVASC INC.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Notes	**December 31, 2012**	December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents	6	**$ 5,861,120**	$ 2,404,510
Investments	7	**-**	1,504,290
Accounts receivable	8	**1,248,271**	735,680
Inventory	9	**191,942**	300,773
Prepaid expenses and other assets		**29,891**	23,372
Total current assets		**7,331,224**	4,968,625
Non-current assets			
Property, plant and equipment	10	**1,467,372**	1,290,651
Restricted cash and cash equivalents	12	**-**	40,840
Total non-current assets		**1,467,372**	1,331,491
Total assets		**$ 8,798,596**	$ 6,300,116
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	11	**$ 1,067,283**	$ 591,476
Current portion of long-term debt	12	**42,540**	41,568
Total current liabilities		**1,109,823**	633,044
Non-current liabilities			
Long-term debt	12	**241,083**	280,642
Total non-current liabilities		**241,083**	280,642
Total liabilities		**1,350,906**	913,686
Equity			
Share capital	14	**70,421,185**	70,220,381
Contributed surplus	14	**8,370,258**	6,158,434
Deficit		**(71,343,753)**	(70,992,385)
Total equity		**7,447,690**	5,386,430
Total liabilities and equity		**$ 8,798,596**	$ 6,300,116

See Accompanying Notes to the Consolidated Financial Statements

NEOVASC INC.

Consolidated Statements of Comprehensive Loss

For the years ended December 31,
(Expressed in Canadian dollars)

	Notes	2012	2011
REVENUE			
Product sales		**$ 3,264,851**	$ 1,785,324
Contract manufacturing		**2,005,058**	1,809,448
Consulting services		**2,549,245**	1,660,989
	16	**7,819,154**	5,255,761
COST OF GOODS SOLD	17	**4,640,302**	3,192,976
GROSS PROFIT		**3,178,852**	2,062,785
EXPENSES			
Selling expenses	17	**169,073**	192,355
General and administrative expenses	17	**3,957,950**	3,128,721
Product development and clinical trials expenses	17	**3,980,056**	2,624,768
		8,107,079	5,945,844
OPERATING LOSS		**(4,928,227)**	(3,883,059)
OTHER INCOME/(EXPENSE)			
Interest income		**28,646**	7,075
Interest expense		**(10,553)**	(11,848)
Gain on sale of license	19	**4,598,160**	-
(Loss)/gain on foreign exchange		**(39,394)**	27,656
		4,576,859	22,883
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		**$ (351,368)**	$ (3,860,176)
LOSS PER SHARE			
Basic and diluted loss per share	20	**$ (0.01)**	$ (0.09)

See Accompanying Notes to the Consolidated Financial Statements

NEOVASC INC.

Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars)

	Notes	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at January 1, 2011		**$ 64,841,468**	**$ 4,999,062**	**$ (67,132,209)**	**$ 2,708,321**
Issue of share capital pursuant to a private placement	14(b)(ii)	4,677,636	-	-	4,677,636
Issue of share capital on exercise of warrants	14(b)(i)	130,517	-	-	130,517
Issue of share capital on exercise of options	14(b)	570,760	(539,774)	-	30,986
Share-based payments	14(b)	-	1,699,146	-	1,699,146
Transaction with owners during the year		**5,378,913**	**1,159,372**	**-**	**6,538,285**
Loss and comprehensive loss for the year		**-**	**-**	**(3,860,176)**	**(3,860,176)**
Balance at December 31, 2011		**$ 70,220,381**	**$ 6,158,434**	**$ (70,992,385)**	**$ 5,386,430**
Issue of share capital on exercise of warrants	14(b)(iii)	31,250	-	-	31,250
Issue of share capital on exercise of options	14(b)	169,554	(154,009)	-	15,545
Share-based payments	14(b)	-	2,365,833	-	2,365,833
Transaction with owners during the year		200,804	2,211,824	-	2,412,628
Loss and comprehensive loss for the year		**-**	**-**	**(351,368)**	**(351,368)**
Balance at December 31, 2012		**$ 70,421,185**	**$ 8,370,258**	**$ (71,343,753)**	**$ 7,447,690**

See Accompanying Notes to the Consolidated Financial Statements

NEOVASC INC.

Consolidated Statements of Cash Flows

For the years ended December 31,
(Expressed in Canadian dollars)

	Notes	2012	2011
OPERATING ACTIVITIES			
Loss for the year		**$ (351,368)**	$ (3,860,176)
Adjustments for:			
Depreciation	17	**135,865**	99,375
Share-based payments	17	**2,365,833**	1,699,146
Gain on sale of license		**(4,598,160)**	-
Interest income		**(28,646)**	(7,075)
Interest expense		**10,553**	11,848
		(2,465,923)	(2,056,882)
Net change in non-cash working capital items:			
Accounts receivable		**(167,729)**	(73,681)
Inventory		**108,831**	168,971
Prepaid expenses and other assets		**(6,519)**	10,357
Accounts payable and accrued liabilities		**475,807**	(56,401)
		410,390	49,246
Interest paid and received:			
Interest received		**28,646**	7,075
Interest paid		**(10,553)**	(11,848)
		18,093	(4,773)
		(2,037,440)	(2,012,409)
INVESTING ACTIVITIES			
Decrease/(Increase) in investments in guaranteed investment certificates		**1,504,290**	(1,504,290)
Proceeds from sale of license		**4,253,298**	-
Purchase of property, plant and equipment		**(312,586)**	(165,545)
		5,445,002	(1,669,835)
FINANCING ACTIVITIES			
Decrease in bank overdraft		**-**	(213,280)
Decrease in restricted cash & cash equivalents		**40,840**	9,160
Repayment of long-term debt		**(38,587)**	(37,292)
Proceeds from issue of shares, net of costs of $42,864		**-**	4,677,636
Proceeds from exercise of warrants		**31,250**	130,517
Proceeds from exercise of options		**15,545**	30,986
		49,048	4,597,727
NET CHANGE IN CASH AND CASH EQUIVALENTS		**3,456,610**	915,483
CASH AND CASH EQUIVALENTS			
Beginning of the year		**2,404,510**	1,489,027
End of the year		**$ 5,861,120**	$ 2,404,510
Represented by:			
Cash	6	**5,861,120**	901,964
Cashable high interest savings accounts	6	**-**	1,201,688
Cashable guaranteed investment certificates	6	**-**	300,858
		$ 5,861,120	$ 2,404,510

See Accompanying Notes to the 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 December 31, 2012 and December 31, 2011 and for the years ended December 31, 2012 and 2011 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

(b) Basis of measurement

The Company's 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, as explained in the accounting policies set out in Notes 3(b) and 3(e), respectively.

(c) Basis of consolidation

The 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Foreign currency translation

The functional currency of Neovasc and each of its subsidiaries is the Canadian dollar. The presentation currency of the consolidated financial statements is the Canadian dollar.

Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the period end rate of exchange. Foreign currency denominated non-monetary assets and liabilities are translated at the historical rates of exchange in effect on the date the asset was acquired or liability incurred. Foreign currency denominated revenues and expenses are translated at the rate of exchange on the date on which such transactions occur. Foreign currency gains or losses arising on the settlement of foreign-currency denominated monetary assets and liabilities are recognized in profit or loss in the period in which they arise.

(b) Financial instruments

Financial assets and financial liabilities are recognized on the Company's consolidated statement of financial position when the Company becomes party to the contractual provisions of the instrument. Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognized when the obligation specified in the contract is discharged, cancelled or expired.

The Company classifies its cash and cash equivalents, restricted cash and cash equivalents and accounts receivable as loans and receivables. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method.

The Company classifies its long-term debt and accounts payable and accrued liabilities as other financial liabilities. These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term, highly liquid investments that are readily convertible to known amounts of cash within 90 days of purchase.

(d) Investments

Investments include investments in high interest savings accounts ("HISAs") and guaranteed investment certificates ("GICs") that are readily convertible to known amounts of cash after 90 days of purchase.

(e) Inventory

Inventory is valued at the lower of cost and net realizable value for finished goods, work in progress and raw materials. Cost is determined on a first-in, first-out basis. Cost of finished goods and work in progress includes direct material and labor costs and an allocation of manufacturing overhead and applicable shipping and handling costs. In determining net realizable value, the Company considers factors such as obsolescence, future demand for inventory and contractual arrangements with customers.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

As no finite useful life for land can be determined, related carrying amounts are not depreciated.

Depreciation of property, plant and equipment is recognized in profit or loss over the estimated useful lives using the following rates and methods:

Building	4% declining balance
Production equipment	30% declining balance
Computer hardware	30% declining balance
Computer software	100% declining balance
Office equipment	20% declining balance

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss.

(g) Impairment of assets

Financial assets (including accounts receivable)

The Company reviews its accounts receivable at least at each reporting date to determine whether there is objective evidence that it is impaired.

The Company considers evidence of impairment for accounts receivable when the amounts are past due or when other objective information is received that a specific counterparty may default. Accounts receivable that are not considered to be individually impaired are reviewed for impairment in groups, using historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When subsequent events cause the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, if it is not possible to estimate the recoverable amount of an individual asset, the asset is included in the cash-generating unit to which it belongs and the recoverable amount of the cash-generating unit is estimated. As a result, some assets are tested individually for impairment and some are tested at the cash-generating unit level. A cash-generating unit is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit on a pro-rata basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Employee benefits

The Company provides short-term employee benefits and post-employment benefits to current employees. The short-term employee benefits includes wages, salaries, social security contributions, paid annual leave, paid sick leave and medical care. Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The Company provides post-employment benefits through defined contribution plans, including contributions to the Canadian Pension Plan and individual Registered Retirement Savings Plans of qualified employees. Contributions to defined contribution pension plans are recognized as an employee benefit expense in the years during which services are rendered by employees.

(i) Revenue recognition

Revenue from the sale of goods and services is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, the Company retains neither continuing managerial involvement nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company earns revenue from three sources: product sales, contract manufacturing and consulting services. Revenues from these three sources are recognized as follows:

Product sales
For product sales, these criteria are met upon shipment of product.

Contract manufacturing
For contract manufacturing, these criteria are met upon shipment of product.

Consulting services
For consulting services, these criteria are met as the services are delivered under the terms of the related consulting services contract.

(j) Research and development

The Company is engaged in research and development. Research costs are expensed as incurred. Development costs are expensed in the period incurred, unless they meet the criteria for capitalization. The criteria include that development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditure is recognized in profit or loss as incurred. Management reviews the applicable criteria on a regular basis and if the criteria are no longer met, any remaining unamortized balance is written off as a charge to profit or loss. Research and development costs are reduced by any scientific research and experimental development tax credits to which the Company is entitled.

(k) Government assistance

Government assistance, consisting of grants and scientific research and experimental development tax credits, is recorded as a reduction of either the related expense or the cost of the asset to which it relates. The assistance is recorded in the accounts when reasonable assurance exists that the Company has complied with the terms and conditions of the approved government assistance program and when there is reasonable assurance that the assistance will be realized.

(l) Interest income and interest expense

Interest income comprises interest income on the GICs and HISAs. Interest income is recognized in profit or loss, using the effective interest method.

Interest expense comprises interest expense on the long-term debt. Interest expense is recognized in profit or loss using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Operating lease

Leases where the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases. Payments on operating lease are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(n) Income taxes

Tax expense represents current tax and deferred tax. Tax is recognized in profit or loss except to the extent it relates to items recognized in other comprehensive income or directly in equity. Current tax is based on the taxable profits for the year, and is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their respective carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither the accounting profit nor taxable profit. Deferred tax assets are recognized to the extent that it is probable that the future taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability settled.

(o) Equity

Share capital represents the value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital.

From time to time the Company issues units consisting of common shares and common share purchase warrants. The Company estimates the fair value of the common shares based on their market price on the date of the issuance of the units. The residual difference, if any, between the unit price and the fair value of each common share represents the fair value attributable to each warrant. Any transaction costs associated with the issuance of units are apportioned between the common shares and warrants based on their relative fair values.

Professional, consulting, regulatory fees and other costs that are directly attributable to financing transactions are deferred until such time as the transactions are completed. Share issue costs are charged to share capital when the related shares are issued. Costs relating to financing transactions that are abandoned are charged to profit and loss.

Contributed surplus includes the fair value of vested stock options (see Note 3(p)).

Deficit includes all current and prior period losses.

(p) Share-based payments

The Company has an equity-settled share-based stock option plan. The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants (see Note 14(c)).

The fair value of the stock options awarded to employees, directors, officers and service providers is measured at grant date, using the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the options. The fair value of the options is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the options. The amount recognized as expense is adjusted to reflect the number of stock options expected to vest.

For stock options with non-vesting conditions, the grant date fair value of the options is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Loss per share

Loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per share is computed using the weighted average number of common shares outstanding during the period on a diluted basis using the treasury stock method.

(r) Operating segment

The Company operates its business in one segment. The Company reports information about revenues from customers for products sales, contract manufacturing and consulting services, from geographical areas, and from major customers (see Note 16).

(s) Future accounting pronouncements

The following new accounting pronouncements have been issued but are not effective and may have an impact on the Company:

Effective for annual periods beginning on or after January 1, 2013:

The International Accounting Standards Board (IASB) has issued Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities). The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements. The effective date of the amendments is annual periods beginning on or after January 1, 2013, which is aligned with the effective date of IFRS 10, 11 and 12.

IFRS 10 Consolidated Financial Statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 Consolidated Financial Statements replaces SIC-12 Consolidation-Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. Based on current facts and circumstances, the Company does not expect to be materially affected by the application of this standard.

IFRS 11 Joint Arrangements provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities-Non-monetary Contributions by Venturers. Based on current facts and circumstances, the Company does not have any joint arrangements as defined by IFRS 11, and hence, does not expect to be affected by the application of this standard.

IFRS 12 Disclosure of Interests in Other Entities is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The effective date is annual periods beginning on or after January 1, 2013. Based on current facts and circumstances, the Company does not expect to be materially affected by the application of this standard.

IFRS 13 Fair Value Measurements explains how to measure fair value by providing a clear definition and introducing a single set of guidance for (almost) all fair value measurements. It clarifies how to measure fair value when a market becomes less active and improves transparency through additional disclosures. The effective date is annual periods beginning on or after January 1, 2013. Based on current facts and circumstances, the Company does not expect to be materially affected by the application of this standard.

The amendments to IAS 1 Presentation of Financial Statements require companies to group together items within Other Comprehensive Income ("OCI") that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments to this standard do not change the nature of the items that are currently recognized in OCI. The effective date is annual periods beginning on or after July 1, 2012. Based on current facts and circumstances, the Company does not expect to be materially affected by the application of this standard.

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Future accounting pronouncements (continued)

Effective for annual periods beginning on or after January 1, 2015:

IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments: Recognition and Measurement, and is currently being developed in stages by the IASB. The IASB has decided to delay implementation until periods beginning on or after January 1, 2015, with early application permitted. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 has also been amended not to require the restatement of comparative period financial statements for the initial application of the classification and measuring requirements of IFRS 9, but instead requires modified disclosures on transition to IFRS 9. The Company has not early adopted this standard and is currently assessing the impact that this standard will have on the consolidated financial statements.

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:

	December 31, 2012	December 31, 2011
Equity	**$ 7,447,690**	$ 5,386,430
Long-term debt	**283,623**	322,210
	$ 7,731,313	$ 5,708,640

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 December 31, 2012 and 2011, the Company was in compliance with all financial covenants associated with its long-term debt.

For the years ended December 31, 2012 and 2011 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 65% and 31% of the revenue for year ended December 31, 2012 (year ended December 31, 2011: 63% and 33% 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 $255,000 and $120,000 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 $26,000 and $14,000 respectively and a change in foreign currency denominated accounts payable of approximately $11,000 and $9,600 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 0.500% 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 $2,860 (2011: $3,200) and inversely change the amount of principal repaid by the same amount.

(c) Liquidity risk

As at December 31, 2012 the Company had $5,861,120 cash. The cash use in operations during the year ended December 31, 2012 was $2,037,440.

As at December 31, 2012 the Company had working capital of $6,221,401 as compared to working capital of $4,335,581 at December 31, 2011.

(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 December 31, 2012: $844,850 (December 31, 2011: $700,411).

As at December 31, 2012, the Company had $8,706 (December 31, 2011: $21,998) 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, 2011: $3,868). During the years ended December 31, 2012 and 2011 the Company wrote down $nil of accounts receivable owed by customers.

(Expressed in Canadian dollars)

6. CASH AND CASH EQUIVALENTS

	December 31, 2012	December 31, 2011
Canadian dollars	**$ 293,409**	$ 445,563
United States dollars	**5,287,649**	456,052
European euros	**280,062**	349
Deposits held in High Interest Savings Accounts ("HISAs")	**-**	1,201,688
Deposits held as a Guaranteed Investments Certificate ("GIC")	**-**	300,000
Accrued interest on GIC	**-**	858
	$ 5,861,120	$ 2,404,510

The HISAs were fully cashable at any time and had a variable interest rate. The GIC was fully cashable, had a 90-day term, matured on January 18, 2012 and had a fixed interest of 1.45% per annum.

7. INVESTMENTS

	December 31, 2012	December 31, 2011
Deposits held as Guaranteed Investments Certificates ("GICs")	**$ -**	$ 1,500,000
Accrued Interest on GICs	**-**	4,290
	$ -	$ 1,504,290

The GICs issued by major Canadian Chartered Banks were non-cashable, had a 180-day term, matured on April 17, 2012 and had a fixed interest rate of 1.50% per annum.

8. ACCOUNTS RECEIVABLE

	December 31, 2012	December 31, 2011
Trade receivables	**$ 844,850**	$ 704,279
Allowance for doubtful accounts	**-**	(3,868)
Net trade receivables	**844,850**	700,411
Receivable from LeMaitre	**344,862**	-
Other receivables	**58,559**	35,269
	$ 1,248,271	$ 735,680

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. (see Note 19).

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:

	December 31, 2012	December 31, 2011
Not past due	**$ 836,144**	$ 682,281
Past due 0 - 30 days	**-**	18,130
Past due 31 - 60 days	**8,706**	-
Past due 61 - 90 days	**-**	-
Past due 91 - 120 days	**-**	-
Past due more than 121 days	**-**	3,868
	$ 844,850	$ 704,279

(Expressed in Canadian dollars)

8. ACCOUNTS RECEIVABLE (continued)

All of the Company's trade and other receivables have been reviewed for impairment. No impairment was found. The movement in the allowance for doubtful accounts is as follows:

	December 31, 2012	December 31, 2011
Balance January 1,	**$ 3,868**	$ 781
Amounts recorded during period	**(3,868)**	3,087
	$ -	$ 3,868

9. INVENTORY

	December 31, 2012	December 31, 2011
Raw materials	**$ 95,061**	$ 180,544
Work in progress	**49,567**	9,220
Finished goods	**47,314**	111,009
	$ 191,942	$ 300,773

During the year ended December 31, 2012 $3,234,927 (2011: $2,284,761) of inventory was expensed in cost of goods sold, and $227,986 (2011: $62,734) 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).