



Neovasc Inc.
Management's Discussion
and Analysis
Form 51-102F1

For the Years ended
December 31, 2010 and 2009

Year End
2010

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 years ended December 31, 2010 and 2009.

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, 2010 (included as part of Neovasc Inc.'s annual filing) as well as the audited consolidated financial statements and notes thereto and the MD&A for the fiscal year ended December 31, 2009 (collectively known as the "Financial Statements").

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 capital 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 technology 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 Canadian generally accepted accounting principles ("GAAP") and is expressed in Canadian dollars.

Date: April 27, 2011

OVERVIEW

Description of the Business

Neovasc Inc. is a specialty vascular device company that develops, manufactures and markets medical devices for the rapidly growing vascular and surgical marketplace. Current products include the Neovasc Reducer™, a novel product in development to treat refractory angina, and a line of advanced biological tissue technologies that are used to enhance surgical outcomes and as key components in a variety of third-party medical products, including transcatheter heart valves.

Neovasc's business operations started in March 2002, with the acquisition of Neovasc Medical Inc. (formerly PM Devices Inc. ("NMI")), 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 bovine and equine pericardial tissue.

In May 2003, Neovasc acquired Angiometrx Inc. (“ANG”). ANG has developed a technology called the “Metricath[®] System,” a catheter-based device that allows clinicians to measure artery and stent size and confirm stent deployment during interventional treatment of coronary and peripheral artery disease. In 2009, Neovasc ceased all activities related to the 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”) (the “Acquisitions”). Neovasc Medical had developed and owned IP 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 had 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 efforts on the Neovasc medical treatment for refractory angina.

Product Portfolio

Peripatch Products

Neovasc manufactures the *PeriPatch[™]* (“Peripatch”) line of advanced biological tissue products that are 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 used as a reinforcement during surgery (for example, to patch a hole in an artery or to help repair a hernia) or 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. Neovasc’s Peripatch material 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 surgical reinforcement patches or aortic heart valve leaflets.

The product line includes: the *PeriPatch[™] Sheet*, and *PeriPatch[™] EQ Sheet*, which are rectangular patches made from bovine (cow) or equine (horse) tissue, applied as internal bandages to repair weak or damaged organs or vessels. These are typically supplied sterile to customers who then use the sheets in surgical procedures.

The Company also provides a range of custom Peripatch products to industry customers for incorporation into their own products. These include Peripatch tissues fabricated from bovine, equine and porcine sources and offered in a wide variety of shapes and sizes. Neovasc works closely with these 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.

Regulatory Status

The Peripatch Sheets made from bovine tissue are cleared for sale in the United States, Canada and Mexico. Peripatch Sheets made from bovine pericardium sourced from Australia are cleared for sale in Europe. The Peripatch EQ Sheets made from equine tissue are 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.

Distribution

Certain sizes of sterile Peripatch and Peripatch EQ Sheets for surgical repair, specifically “strips” which are used primarily for vascular reconstruction procedures, are distributed exclusively by LeMaitre Vascular (Boston, MA) in the United States and Europe. Non-strip sizes of Peripatch Sheets for surgical repair are distributed by LeMaitre Vascular as well as a number of other independent distributors in Europe and elsewhere. The Company’s goal is to steadily increase its distribution reach in new target markets, while increasing market share in current markets and in particular in the United States.

Distribution of custom Peripatch tissue products to industry customers is handled directly by Neovasc through its business and product development group.

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. 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 back to the 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 recurrent 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 an annual market opportunity of over \$3 billion for the Reducer product. The initial target market for the Reducer product is patients presenting with refractory angina with no other 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 “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” guidewire. The implantation procedure is quick and requires minimal training. Once guidewire access to the coronary sinus is achieved, implantation typically takes less than 10 minutes.

Following implantation, the bare metal 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 that restores a more normal ratio of epicardial/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. 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. Reducer was developed to deliver this therapy in a safe, simple and effective manner via a catheter that is consistent with modern 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 data was presented at the ACC annual scientific meeting 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 an overall quality of life improvement in the majority of the patients.

Regulatory Status

The Reducer is not yet approved for sale. Neovasc has completed development of the commercial-generation Reducer and the product has been transferred to pilot manufacture. The Company is presently conducting a clinical trial named “COSIRA” (Coronary Sinus Reducer for Treatment of Refractory Angina) which will provide data to support CE mark of the product. CE mark will enable the Company to begin marketing Reducer for use in Europe. COSIRA is a blinded, randomized, sham controlled multicentre trial of approximately 124 patients with an expected eight to ten investigation sites. Enrollment of patients at the first center began in September 2010. Enrollment is expected to be complete around the end of Q3-2011 with the required 6-month follow-up completed on all patients in the first half of 2012. There is no assurance that the CE mark will be granted in the time frame anticipated by management, or granted at any time in the future. Neovasc is presently developing a US regulatory approval strategy that will address the requirement for a larger randomized clinical trial that is mandatory in the US. US approval is expected in about four to five 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.

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 materials 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 device products that incorporate Neovasc tissue. Revenue earned from various contract agreements varies throughout the year depending on customer needs.

Regulatory Affairs and Clinical Trials

The Company is presently in the process of obtaining the clinical trial data required to support European regulatory approval for the Reducer product. The COSIRA trial which commenced in September 2010 is expected to support this and other regulatory applications.

Product Development

Product development at the Company is presently focused on completing the development and commercialization of the Reducer product. The Company is also undertaking a substantial volume of product development work under contract for third parties. These third party projects are typically focused on supporting the development of products that incorporate Neovasc's 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 sales of new PeriPatch tissue products as well as the related manufacturing services the Company will provide for these customers once their products reach the market. The Company is also investigating potential new internal projects which leverage the Company's existing technologies, infrastructure and expertise. These new internal projects are at the proof-of-concept stage.

Sales & Marketing

The Company's sales and marketing activities are currently focused on reaching tissue product customers and distributors, and contract manufacturing clients.

TRENDS, RISKS AND UNCERTAINTIES

The Company has incurred operating losses of \$2,630,885 for the year ended December 31, 2010 (2009: \$4,476,284) and has a deficit of \$66,997,132 at December 31, 2010 (2009: \$64,366,247). The Company's ability to continue as a going concern 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 which has significantly tightened the credit and equity markets may result in required funds not being available to the Company at the time required 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 of its future operating results. The Company has a history of fiscal losses since its inception and will need to generate significantly greater revenues than it has to date to achieve and maintain profitability. There is no certainty of future profitability, and results of operations in future periods cannot be predicted based on results of operations in past periods. Generally, the securities of the Company should be considered a highly speculative investment.

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 technology and products; the Company's ability to obtain and enforce timely patent protection of its technology and products; the Company's ability to develop, manufacture and commercialize its products cost-effectively and according to regulatory standards of numerous governments; the competitive environment and impact of technological change and/or product obsolescence; the continued availability of capital to finance the Company's activities; the Company's ability to conduct and complete successful clinical trials; the Company's ability to garner regulatory approvals for its products in a timely fashion; the Company's ability to attract and retain key personnel, effectively manage growth, and smoothly integrate newly acquired businesses or technologies; limitations on third-party reimbursement; instances of product or third-party liability; dependence on a single supplier for some products; animal disease or other factors affecting the quality and availability of raw materials; conflicts of interest among the Company's directors, officers, promoters and members of management; fluctuations in the values of relative foreign currencies; volatility of the Company's share price; fluctuations in quarterly financial results; unanticipated expenses; changes in business strategy; impact of any negative publicity; general political and economic conditions; and Acts of God and other unforeseeable events, natural or human-caused.

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 occurring after establishment of prices 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 years ended December 31, 2010 and 2009.

DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

This section analyzes the significant changes in the audited consolidated financial statements of operations and deficit and cash flows for the year ended December 31, 2010, compared to those for the same year ended December 31, 2009 and compares the financial condition at December 31, 2010 to that at December 31, 2009.

Results of Operations

Results for the year ended December 31, 2010 and 2009 follow:

Net Losses

The consolidated net loss for the year ended December 31, 2010 was \$2,630,885 or \$0.07 basic loss per share, as compared with a net loss of \$4,476,284 or \$0.18 basic loss per share for the comparable period in 2009.

Revenues

Revenues increased 45% year-over-year to \$4,358,825 for the year ended December 31, 2010 from \$3,000,047 for the same period in 2009.

Product sales for the year ended December 31, 2010 were \$2,149,691, compared to \$1,819,722 in the same period of 2009, representing an increase of 18% as sales of Neovasc's Peripatch tissue products continued to grow at a steady rate.

Contract manufacturing revenues increased from \$302,011 in 2009 to \$850,613 in 2010, an increase of 182%. This strong growth is the result of increased activity as our customers developing products move further down the regulatory path and we anticipate that this revenue stream may increase further in the future as our customers' products are commercialized.

Revenue from consulting services for the year ended December 31, 2010 were \$1,358,521, compared to \$878,314 in the same period in 2009, representing an increase of 55%. Because consulting service revenues are contract-driven, they can fluctuate from quarter to quarter as current projects are completed and new projects start. The Company believes that the underlying trend is for moderate year-over-year growth in its consulting service business.

Cost of Sales

The cost of sales for the year ended December 31, 2010 was \$2,614,919, as compared to \$1,404,507 in the comparable period in 2009. The overall gross margin for 2010 was 40%, compared to the 53% gross margin reported in 2009.

The decline in gross margins during 2010 reflects the impact of exchange rates and a shift in product mix. In the year ended December 31, 2010, 96% of the Company's sales were denominated in U.S. and European Union currency. A strengthening Canadian dollar has impacted the revenues and margins generated from these foreign currency-denominated sales. In addition, in the current year there has been a shift in the product mix towards the Company's lower margin products. Neovasc is exploring a number of initiatives aimed at strengthening margins going forward, including implementing further manufacturing efficiencies, reviewing pricing strategies for certain products and focusing on expanding sales of such higher margin product lines as custom tissue for transcatheter heart valves and related manufacturing services.

Expenses

Total expenses for the year ended December 31, 2010 were \$4,176,501, as compared to \$5,848,916 for the year in 2009, representing a decrease of \$1,672,415 or 29%.

Sales and marketing expenses declined 71% to \$190,743 for the year ended December 31, 2010, from \$666,323 for the same period in 2009. The Company continues to minimize sales and marketing costs while it focuses on growing its business-to-business revenue streams.

General and administrative expenses were \$2,165,070 for the year ended December 31, 2010 as compared to \$2,494,661 for the same period of 2009, representing a decrease of 13%. These decreases reflect the Company's tighter business focus and ongoing implementation of rigorous cost-cutting measures.

Product development and clinical trial expenses were \$1,820,688 for the year ended December 31, 2010 as compared to \$2,687,932 for the same period of 2009, representing a decrease of 32%. The principal development project ongoing in 2010 was the Neovasc Reducer COSIRA clinical trial. There were also a number of new internal projects started late in 2010. These new projects are currently at the proof-of-concept stage.

Amortization and Other Expenses

Amortization and other expenses for the year ended December 31, 2010 were \$198,290 as compared to amortization and other expenses of \$222,908 for the same period in 2009. The main variance was a decrease of \$78,481 in amortization expense as all the remaining assets in Neovasc's Israeli operations were amortized to zero in 2009.

Results for the quarter ended December 31, 2010 and 2009 follow:

Net Losses

The consolidated net loss for the quarter ended December 31, 2010 was \$812,150 or \$0.02 basic loss per share as compared with a net loss of \$597,145 or \$0.02 basic loss per share for the comparative period in 2009.

Revenues

Revenues for the quarter ended December 31, 2010 were \$1,318,564 compared to \$1,043,872 for the comparative period in 2009, mostly due to a year-over-year increase in contract manufacturing revenue.

Cost of Sales

The cost of sales for the quarter ended December 31, 2010 was \$855,411 compared to \$511,917 for the same period of 2009. The costs rose in line with the volume of production as throughput almost doubled compared to the prior quarter.

Expenses

Total expenses for the quarter ended December 31, 2010 and 2009 were \$1,179,921 and \$1,042,361 respectively, an increase of 13%.

Sales and marketing expenses were \$55,731 for the quarter ended December 31, 2010 as compared to \$105,343 for the same periods in 2009, a decrease of 47% as sales expenses remain low and focused on business-to-business development.

General and administrative expenses for the quarter ended December 31, 2010 were \$515,110 as compared to \$508,024 in 2009, an increase of 1%. Expenses have normalized as the impact of our cost cutting measures are now felt in both the current and prior period.

Product development and clinical trial expenses were \$609,080 for the quarter ended December 31, 2010 as compared to \$428,994 for the quarter ended December 31, 2009, an increase of 42%. Both the costs of the COSIRA clinical trial and the initiation of some new internal development projects in 2010 account for these increases.

Amortization and Other Expenses

Amortization and other expenses for the quarter ended December 31, 2010 were \$95,382 as compared to \$86,739 for the same period in 2009.

Annual Information

The following is a summary of selected financial information for the three fiscal years to December 31, 2010:

	2010	2009	2008
Sales	\$ 4,358,825	\$ 3,000,047	\$ 1,546,239
Net loss	(2,630,885)	(4,476,284)	(34,259,565)
Basic and diluted loss per share	(0.07)	(0.18)	(2.95)
Total assets	3,715,700	2,273,314	4,820,523
Total long-term liabilities	318,872	357,097	427,576
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, 2010:

Sales								
Products Sales	\$	657,418	\$	539,478	\$	576,884	\$	375,912
Contract Manufacturing		318,833		99,878		71,415		360,486
Consulting Services		342,313		375,144		311,621		329,443
		<u>1,318,564</u>		<u>1,014,500</u>		<u>959,920</u>		<u>1,065,841</u>
Cost of sales		<u>855,411</u>		<u>563,937</u>		<u>612,626</u>		<u>582,945</u>
Expenses								
Selling		55,731		40,763		49,358		44,891
General and administration		515,110		465,632		697,125		487,203
Product development and clinical trials		609,080		325,045		533,448		353,115
		<u>1,179,921</u>		<u>831,440</u>		<u>1,279,931</u>		<u>885,209</u>
EBITDA		<u>(716,768)</u>		<u>(380,877)</u>		<u>(932,637)</u>		<u>(402,313)</u>
Amortization/Other expenses		95,382		29,840		4,252		68,816
Net loss	\$	<u>(812,150)</u>	\$	<u>(410,717)</u>	\$	<u>(936,889)</u>	\$	<u>(471,129)</u>
Basic loss per share	\$	<u>(0.02)</u>	\$	<u>(0.01)</u>	\$	<u>(0.03)</u>	\$	<u>(0.02)</u>

	Quarter Ended - Unaudited			
	December 31, 2009	September 30, 2009	June 30, 2010	March 31, 2009
Sales				
Products Sales	665,100	\$ 436,272	\$ 446,018	\$ 272,332
Contract Manufacturing	54,456	137,505	83,751	26,298
Consulting Services	324,316	426,590	70,555	56,854
	<u>1,043,872</u>	<u>1,000,367</u>	<u>600,324</u>	<u>355,484</u>
Cost of sales	<u>511,917</u>	<u>465,565</u>	<u>277,265</u>	<u>149,760</u>
Expenses				
Selling	105,343	94,412	163,683	302,885
General and administration	508,024	576,804	659,004	750,829
Product development and clinical trials	428,994	517,456	864,702	876,780
	<u>1,042,361</u>	<u>1,188,672</u>	<u>1,687,389</u>	<u>1,930,494</u>
EBITDA	<u>(510,406)</u>	<u>(653,870)</u>	<u>(1,364,330)</u>	<u>(1,724,770)</u>
Amortization/Other expenses	86,739	148,578	(33,879)	21,470
Net loss	\$ <u>(597,145)</u>	\$ <u>(802,448)</u>	\$ <u>(1,330,451)</u>	\$ <u>(1,746,240)</u>
Basic loss per share	\$ <u>(0.02)</u>	\$ <u>(0.03)</u>	\$ <u>(0.05)</u>	\$ <u>(0.10)</u>

Revenues from tissue and surgical products and services have been cyclical in nature in 2010. The second quarter saw a significant decrease in activity and purchasing over the summer months while the fourth quarter recorded our highest revenues on record. 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 client.

Selling expenses have remained relatively consistent over the year and are significantly lower than in 2009 as efforts have been focused on servicing our existing customers. General and administrative expense reached a peak in the second quarter mainly due to stock-based compensation expense of \$100,743 for options granted and vested immediately in the quarter. Product development and clinical trial costs also peaked in the second quarter due to the administrative expenses incurred just prior to the COSIRA clinical trial and in the fourth quarter as some early internal development projects were initiated.

LIQUIDITY AND CAPITAL RESOURCES

The Company finances its operations and capital expenditures with cash generated from operations, lines of credit, long-term debt and equity financings. At December 31, 2010, the Company had cash and cash equivalents of \$1,275,747, as compared to cash and cash equivalents of \$111,368 at December 31, 2009. In addition, at December 31, 2010 the Company had restricted cash related to a security on long-term debt of \$50,000 (December 31, 2009: \$50,000) included in long-term assets.

At December 31, 2010 the Company had working capital of \$1,752,712 as compared to a negative working capital of \$28,502 at December 31, 2009. The increase in working capital during 2010 was predominantly due to the net impact of an increase in cash due to the exercise of warrants in the fourth quarter; an increase in accounts receivable due to increased revenues in the fourth quarter; and a decrease in accounts payable, as residual outstanding long-term debts were settled over the course of the year.

Cash used in operations was \$2,605,240 for the year ended December 31, 2010, as compared to \$4,275,925 for the same period in 2009. The decrease in cash usage for the year ended December 31, 2010 as compared to same period of 2009 is primarily the result of the Company's increased sales and decreased operating expenses.

Net cash invested in capital assets was \$108,185 for the year ended December 31, 2010 compared to \$51,281 in 2009. Neovasc used most of the capital investment funds in 2010 to expand its clean room and manufacturing facilities.

Net cash provided by financing activities was \$3,877,804 for the year ended December 31, 2010, compared to cash provided of \$1,940,135 in the same period of 2009.

On February 19, 2010, the Company completed a non-brokered private placement of 5,691,658 units at the price of \$0.27 per unit for aggregate gross proceeds of \$1,536,748. 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 will entitle the holder thereof to purchase one common share of Neovasc stock at the exercise price of \$0.40 per share for a period of one-year after the closing date of the offering. Share issue costs were \$25,607.

On April 23, 2010, the Company issued 4,635,114 common shares upon the exercise of warrants issued as part of the Company's April 2009 financing. Proceeds from the exercise of the 4,635,114 warrants amounted to \$1,390,534. The remaining 126,788 warrants expired on April 23, 2010.

On November 8, 2010, the Company issued 2,519,538 common shares upon the exercise of warrants issued as part of the Company's February 2010 financing. Proceeds from the exercise of the 2,519,538 warrants amounted to \$1,007,815. The remaining 326,293 warrants were exercised on January 17, 2011 and February 15, 2011.

SUBSEQUENT EVENTS

On January 17, 2011 and on February 15, 2011 respectively, 197,922 and 128,371 warrants were exercised for an equivalent number of common shares of the Company, generating proceeds of \$79,169 and \$51,348.

On January 26, 2011 the Company issued 1,293,000 options to its board of directors and management. The options have an exercise price of \$1.00 and expire five years after the grant date. Of these options 415,000 vested immediately and 878,000 will vest on December 31, 2011, upon management achieving certain performance milestones established by the board of directors.

OUTSTANDING SHARE DATA

As at December 31, 2010, the Company had 40,364,334 common voting shares issued and outstanding. Further, the following securities are convertible into exercisable for common shares of the Company: 4,136,302 stock options with a weighted average price of \$0.46, and 326,293 share purchase warrants with exercise prices of \$0.40. The fully diluted share capital of the Company at December 31, 2010 is 44,826,929.

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, 2010. During the year ended December 31, 2009 the former CEO charged the Company for services in the amount of \$11,180.

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 Canadian GAAP and for the safeguarding of Company assets. The CEO and CFO are aware that internal controls relating to the accounting function could be strengthened by adhering to a strict policy of segregating the duties of accounting staff to reduce the risk of unauthorized journal entries being made or a misappropriation of cash. At the Company's current size, adoption of such a policy is impractical. To reduce these risks, the CFO reviews bank reconciliation statements and performs periodic reviews of non-standard entries after they have been recorded; all cheque payments require two signing authorities. The CEO periodically reviews recorded financial information. The CEO and CFO believe that these reviews are an adequate compensating control; accordingly, there are no plans to remediate this internal control weakness.

No material changes were made to the Company's system of internal controls relating to financial reporting during the year ended December 31, 2010.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") would be required for Canadian publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. In 2008, in preparation for the conversion to IFRS, the Company has developed an IFRS changeover plan.

The Company performed a diagnostic analysis of the key difference between Canadian GAAP, as currently applied by the Company, and IFRS for each significant accounting component to identify the areas that may be impacted by the transition. Based on the preliminary analysis, the Company assessed key areas that potential issues may arise during the transition, and ranked the potential impacts on the Company's financial statements as high, medium or low.

The key areas where significant changes in accounting policies are being assessed are as follows:

IFRS 2 – Share-Based Payments:

Areas impacted by applying IFRS 2 are the method used to account for graded-vesting features and forfeiture rate estimation. The Company uses straight-line method to account for graded-vesting features, and accounts for actual forfeitures as they occur under Canadian GAAP. Under IFRS 2, the Company is required to use the attribution method to account for graded-vesting features, and estimate a forfeiture rate at the date of grant on the basis of historical data and then revise it annually when circumstances indicate a change in forfeiture rates.

IAS 21 – The Effects of Changes in Foreign Exchange Rates:

A key difference between Canadian GAAP and IFRS is the methodology underlying the determination of the functional currency of the Company and each of its subsidiaries. Under IAS 21, the reporting entity must determine its functional currency in relation to the currency of the primary economic environment in which the entity operates. Based on the

Company's current operations, the Company may be required to declare the U.S. dollar or European euro as our functional currency. However, the Company will still have the option under IFRS to report our financial results and position in Canadian dollars. The Company is currently in the process of determining the functional currencies of the parent entity and its subsidiaries.

IAS 36 – Impairment of Assets:

Under IAS 16, an impairment loss recognized in prior periods for an asset shall be reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized, which is not allowed in the Canadian GAAP. As at December 31, 2008, the Company recognized an impairment charge of \$19,503,930 and wrote down its acquired technology and other intangible assets to \$nil. After applying IAS 16, if future circumstance indicates that the estimates and judgments regarding forecasts on the success and lifecycle of the technologies and future cash flows generated by the acquired technologies change, the impairment loss may be reversed.

IAS 12 – Income Taxes:

The adoption of IAS 12 will change the measurement of some income tax amounts and require more extensive disclosure than under Canadian GAAP. However, the convergence project which is currently on-going between the IASB and the FASB will result in the elimination of the majority difference between Canadian GAAP and IFRS.

IAS 1 – Presentation of Financial Statements:

IFRS introduces a number of changes to the format of the financial statements. Some of these are mandatory changes that will have a significant impact on the presentation of the Company's financial statements. IAS 1 requires a separate statement of changes in equity. However, Neovasc has the option of retaining certain other aspects of its current financial statement presentation, subject to the mandatory changes under IFRS, or making more significant changes to adopt IFRS presentation across its financial statements.

First-time Adoption of IFRS:

The Company applies IFRS 1 *First-time Adoption of International Financial Reporting Standards (as revised in 2008)* ("IFRS 1") in preparing its first IFRS financial statements. IFRS 1 requires disclosure of comparative and reconciliation information in the first IFRS financial statements. To comply with this requirement, the Company prepared quantified information about the impact of IFRS on the Company's consolidated balance sheet reported under IFRS at January 1, 2010 (disclosed below).

IFRS 1 generally requires retrospective application of all IFRS policies effective at the end of the first IFRS reporting period, but permits certain mandatory exceptions and optional exemptions from full retrospective application. IFRS 1 exemptions to be applied by the Company are set out below.

(a) First-Time Adoption Exemption Applied

Mandatory exceptions adopted by the Company:

- The Company has used estimates under IFRS that are consistent with those applied under Canadian GAAP (with adjustment for accounting policy differences) unless there is objective evidence those estimates were in error.

The Company adopted following optional exemptions:

- The Company has elected not to apply IFRS 3 retrospectively to past business combinations occurred before January 1, 2010.
- The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010, which has been accounted for in accordance with Canadian GAAP.
- The Company has deemed the cumulative translation differences for foreign operations at the date of transition to be zero. Adjustments to give effect to this are recorded against opening equity. After the date of transition, translation differences arising on translation of foreign operations are recognized in other comprehensive income and included in a separate 'cumulative translation difference' within equity.

