



Management's Discussion and Analysis

Form 51-102F2

For the three and six months ended
June 30, 2008 and 2007

**Q2
2008**

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

This discussion and analysis covers the unaudited consolidated financial statements for the three and six months ended June 30, 2008 and 2007.

The Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the three and six months ended June 30, 2008 (included as part of Neovasc Inc's quarterly filing) as well as the audited consolidated financial statements and notes thereto and the MD&A for the fiscal year ended December 31, 2007 (collectively known as the "Financial Statements").

The following discussion contains forward-looking statements that are based on currently available information and, therefore, involve risk and uncertainties. The predictions described in these statements may not materialize if management's current expectations regarding the Company's future performance prove incorrect. Results could also be affected by, but not limited to, operating risks described herein.

All financial information is prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and is expressed in Canadian dollars. The interim consolidated financial statements for the three and six months ended June 30, 2008 have not been reviewed by the Company's auditor.

Additional information regarding Neovasc Corp. including the Company's Financial Statements can be found on SEDAR at www.sedar.com.

Date: August 29, 2007

OVERVIEW

Description of the Business

Neovasc Inc (formerly Medical Ventures Corp.) ("Neovasc" and the "Company") develops, manufactures and commercializes medical devices, focusing on products that address clinical needs in the vascular and surgical marketplace. Neovasc's strategy is to acquire and develop technologies and products that are near or at the point of market entry and to increase the value of its technologies through the commercialization process. Key hurdles in the commercialization process include: completing final development, including design control, pre-production and clinical trials; securing the necessary regulatory approvals to sell the Company's products in world markets; and ultimately gaining market acceptance of the Company's products through direct sales or distribution and licensing agreements with distribution partners around the world.

Neovasc's vision is to develop a portfolio of medical devices from which the Company generates revenue from the distribution, licensing or sale of each of these products. Neovasc is focused on unique market opportunities in the field of vascular medicine.

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

In May 2003, Neovasc entered the rapidly growing interventional cardiology and radiology markets with the acquisition of Angiometrx Inc. ("Angiometrx"). Angiometrx has developed a technology called the "*Metricath*[®] System," an innovative 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.

New Acquisitions

On January 30, 2008, Neovasc announced the intent to acquire two pre-commercial vascular device companies based in Israel: Neovasc Medical Inc. and B-Balloon Inc. Neovasc Medical Inc. is developing 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 is developing a suite of vascular catheter products to solve problems physicians frequently encounter when attempting to place vascular stents at locations where an artery first branches from the aorta ("the ostium") or where an artery splits into multiple branches ("a bifurcation"). Neovasc Medical Inc. and B-Balloon offer a potential pipeline of technologies that complement NEOVASC's existing products, sales call points, and target customers.

Supporting the acquisitions both as a shareholder of the companies being acquired and as a financier for Neovasc concurrently with the closing the acquisitions is Phillip Frost, MD, a prominent U.S. pharmaceutical entrepreneur and managing director of the Frost Group, a Miami, Florida-based private equity firm. The Frost Group will act as lead investor for the financing and, together with other investors, is expected to invest an aggregate of \$6 million for approximately ten per cent of Neovasc's common shares (post-acquisition).

As part of the proposed transactions, Neovasc will consolidate its outstanding 111 million shares (136 million fully diluted), at 20 old shares for one new share. The Frost-led unit financing will consist of one common share priced at \$4.00 per share and a warrant to purchase 0.62 of a common share at price of \$5.00

per share for a period of 18 months from the date of closing. This price represents a significant premium to the market for Neovasc shares from the day prior to the announcement of the proposed transaction. Neovasc expects to issue between approximately 5.8 and 6.8 million (post-consolidation) common shares for each of B-Balloon and Neovasc Medical Inc. This will bring the Company's total capitalization to between 19 and 22 million shares, including shares issued pursuant to the \$6 million financing. The share consolidation is being done in preparation for seeking listing on the American Stock Exchange (AMEX), which has a minimum trade price qualification for listing.

Completing the above acquisitions will significantly broaden the Company's vascular device product portfolio and will enable its sales representatives and third-party distributors to offer an array of complementary products to meet the needs of the physicians on whom they call.

The Company held its Annual and Special Meeting of Shareholders on Tuesday, June 3, 2008, in Vancouver. In addition to regular annual matters, shareholders will vote on special resolutions to proceed with the acquisition. Neovasc distributed and made publicly available the related proxy materials in the first week of May. All resolutions and matters associated with the transaction were passed at this meeting.

In conjunction with the successful completion of this transaction, the Company will change its name to Neovasc Inc., to better reflect the focus of its ongoing operations as a specialty vascular device company.

Product Portfolio

Metricath System

The Metricath product line consists of a small, pole-mounted console unit and two distinct catheter models: the *Metricath Libra*[®] measure-only catheter, and the *Metricath Gemini*[®] measure-and-treat catheter.

Metricath catheters are used during angioplasty, a procedure used to open arteries where blood flow is restricted by plaque (the accumulation of fats and cholesterol). To perform angioplasty, doctors thread a balloon-tipped catheter through the vasculature and inflate the balloon at the site of the blockage, opening the narrowed vessel. Once the vessel is open, doctors often implant a stent (a small metal mesh tube) to prevent it from re-closing and to maintain proper blood flow.

Metricath provides the user with precise measurements of an artery by inflating the balloon at the catheter's tip and monitoring its volume and pressure as it comes up against the artery walls. These measurements allow doctors to quickly diagnose artery blockages and treat them with balloons and stents that are optimally sized for

the artery. As an added benefit, Metricath catheters can also take measurements inside an implanted stent to ensure that it is fully open. In the case of the Metricath Gemini, a second, high-pressure balloon on the catheter may be used to expand under-deployed stents.

Accurate measurement is believed to be an important factor in patients' post-procedure outcomes, as it helps doctors confirm that stents are deployed properly within arteries. In 2006, the medical community identified a link between the use of drug-coated stents and an increased risk of blood clotting, or "thrombosis," as compared to situations where bare-metal (uncoated) stents are used. While it has not been determined definitively why this is the case, there are clinical indications that factors include the under-sizing of stents and/or under-expansion of stents against the artery wall in conjunction with the stents' drug coating or polymer. As a result, there has been increased clinical focus on proper stent selection and expansion to help minimize the risk of stent thrombosis. Anecdotal evidence from the field suggests that physician awareness of the need to accurately size and place stents is continuing to increase, for reasons of potential liability as well as clinical utility. Metricath has the potential to offer improved care by reducing the risk of thrombosis associated with drug-coated stents. By using Metricath to confirm artery and stent size, doctors can be more confident that stents fit correctly within the arteries in which they are placed.

The Metricath System was developed in response to the limitations of existing measurement technologies that are either insufficiently accurate or prohibitively expensive and time-consuming to gain widespread market acceptance. Obtaining accurate measurements is problematic using conventional imaging techniques such as angiography. Intravascular ultrasound (IVUS) catheters can provide precise vascular measurements; however, IVUS is comparatively expensive and time-consuming to use. IVUS takes approximately three times longer to set up and use than Metricath and has a disposable cost of between two and three times that of Metricath. In addition, where IVUS requires the purchase or lease of a complex image acquisition and analysis system, Metricath imposes minimal capital costs on users.

Current estimates are that approximately 2.5 million stent implantation procedures are performed globally each year. The Metricath System is intended to be a simple and cost-effective vascular measurement tool that can be adopted easily into standard treatment practices.

Regulatory Status

The Metricath Libra is cleared for sale in the United States, Canada, the European Union, Australia, Brazil and Israel. The Metricath Gemini is cleared for sale for

peripheral artery use in the United States, for coronary arteries in Canada, and for all vascular applications in the European Union. In Q4 2007 the company filed a Pre-Market Approval (“PMA”) application for FDA approval of the Metricath Gemini for coronary procedures in the U.S. This application followed completion of the GAAME clinical trial which was undertaken to provide the clinical data required to support this application (see “Product Development and Clinical Trials”). Subsequent to the period end the Company received comments from the FDA’s regarding approval more fully discussed in the ‘Subsequent Event’ Section of this report.

Distribution

The Metricath line is sold via direct sales in the U.S. and Canada and via distributors in other countries. Company activities are presently focused on supporting and growing sales in the U.S. market, which makes up approximately half of the total world market for products of this type. The Company currently staffs five direct sales positions, covering select regions of the U.S. and Canada. Neovasc may expand the sales team as market acceptance increases and in preparation for approval of the Metricath Gemini and other product acquisitions.

PeriPatch Products

Neovasc also manufactures the *PeriPatch™* line of surgical tissue products. The PeriPatch line consists of several flexible, biomaterial tissue products made from animal sources. They are chemically treated with proprietary technology to prevent their degradation and to maintain their biocompatibility. PeriPatch products are used for vascular repair and reconstruction, as well as in other surgical procedures including staple and suture line reinforcement. The products are biocompatible, allowing optimal incorporation with the body’s host tissue, and no special sutures are required to make a secure seal.

The product line includes: the *PeriPatch™ Sheet* and *PeriPatch™ EQ Sheet*, rectangular patches made from bovine (cow) or equine (horse) tissue, that are applied as internal bandages to repair weak or damaged organs or vessels; and the *PeriPatch™ Aegis*, and *PeriPatch™ Aegis EQ*, new products for staple line reinforcement used during endoscopic (minimally invasive) surgical procedures. There are approximately two million surgical procedures performed annually around the world where tissue products may be applied. In addition, a primary application of the PeriPatch Aegis is for use during bariatric surgery (such as gastric bypass) to treat morbid obesity. This type of surgery has seen significant growth in the past decade, providing an attractive market for the Aegis product. Further, several recent clinical reports suggest bariatric surgery has a dramatic effect on reducing the symptoms of Type II diabetes. The Company is monitoring whether this link is likely to increase the number of bariatric surgeries performed.

Regulatory Status

The PeriPatch Sheet is cleared for sale in the U.S., Canada and Mexico. The PeriPatch EQ Sheet is approved for sale in the European Union and in Canada. The PeriPatch Aegis is cleared for sale in the United States.

Distribution

Neovasc sells its tissue and surgical products through a network of country-specific distributors. The Company provides training and promotional materials to its current distributors while striving to obtain new distributors in selected target markets. The Company’s goal is to steadily increase its distribution reach in new markets, while increasing market share in current markets and in particular in the U.S., which has seen significant growth in staple line reinforcement product sales in recent years.

Currently, the Company has distribution agreements for its PeriPatch products covering the United States and Canada as well as selected countries in Europe and elsewhere. In the United States, Neovasc distributes the PeriPatch line through MedSurg Specialty Devices (formerly called Itochu Healthcare or “Itochu”), a large network of healthcare product distributors and sub-distributors that has broad distribution arrangements with healthcare facilities across the country. The Company has issued notice to Medsurg Specialty Devices (a division of Itochu Healthcare) the current distributor for Neovasc’ tissue products in the US that Medsurg is not meeting certain performance requirements of the Distribution Agreement related to coverage in all US territories, reporting requirements and requirements to adequately represent the products in the US territory. Discussions as to how to remedy these issues are ongoing between the Company and Medsurg. Neovasc is also actively exploring alternate options to increase penetration for its tissue products in the US market. Neovasc is in the process of establishing a network of distributors to sell the PeriPatch EQ products in the European market.

Additional Products and Third Party Sales

Neovasc provides consulting and original equipment manufacturing (OEM) services to other medical device companies when these services fall within the scope of its expertise and capabilities. Revenue earned from various contract agreements varies throughout the year depending on customer needs.

Regulatory Affairs and Clinical Trials

In Q4 2007, the Company submitted a pre-market approval (PMA) application to the U.S. Food & Drug Administration (FDA) to approve the Metricath Gemini for coronary applications in the U.S. The Company supported its application with data from a clinical trial called "GAAME," for Gemini Angioplasty and Arterial Measurement Evaluation, which was completed in Q3 2007. In April 2008, Neovasc announced that it had received an interim response to its PMA application from the FDA. The response requested additional information related to clinical and non-clinical aspects of the application. Neovasc is assembling the requested information with the assistance of the investigational sites that participated in the GAAME trial. The FDA has also scheduled and completed an inspection of Neovasc's manufacturing and sterilization facility as part of the PMA application process. The FDA inspection is scheduled to take place at the beginning of June, 2008 and the Company successfully passed the inspection with no deviations or warnings.

In Q1 2008, Neovasc released physician feedback from the GAAME trial. The report indicated physicians' responses to questionnaires administered for each patient in the trial, recording measurements of the Metricath Gemini's performance and clinical utility related to each procedure. The feedback compiled showed that the Metricath Gemini influenced the doctors' course of treatment related to selecting stent size and post-dilating stents after implantation.

Product Development

Product development at the Company is presently focused on the refinement and improvement of existing products.

The Company has announced its intent to acquire two pre-commercial medical device companies located in Israel. Following completion of this acquisition, product development activities will be expanded to include ongoing development of the new product lines of the acquired companies.

Sales & Marketing

The Company's sales and marketing activities are focused on building market awareness and support for its products and improving penetration into these markets through its direct sales force and distributors. The Company has retained industry experts with experience in introducing new technologies into

established medical device markets to assist it to develop sales and reimbursement strategies.

For the Metricath product line, the Company has continued to build awareness of the product through the sponsorship of clinical trials, direct advertising, incorporation of Metricath into medical training programs, the sponsorship of live cases at medical conferences, placing product displays at medical conferences and similar activities.

For the surgical tissue product lines, the Company has continued to help generate awareness of its products by closely supporting its distributors.

TRENDS, RISKS AND UNCERTAINTIES

Neovasc has a limited operating history which makes it difficult to predict how its business will develop or 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 a significant level of development, regulatory, production and commercialization activity. Other than the standard operating risks associated with such a venture, the Company's management is not aware of any trend, commitment, event or uncertainty that is presently known or is reasonably expected to have a material effect on the Company's business, financial condition or results of operations. 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 the 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.

A portion of Metricath catheter sales efforts are targeting use in renal artery stenting procedures. In 2007, the Centers of Medicare and Medicaid Services (CMS), the largest U.S. health care payer, generated a national coverage analysis (NCA) and initiated reconsideration of its coverage policy for percutaneous transluminal angioplasty (PTA) of the renal arteries. On February 14, 2008, CMS issued its final decision memo to make no changes, continuing to leave coverage and reimbursement decisions to the discretion of regional Medicare contractors. Individual contractor decisions may adversely affect this market by reducing the number of renal stent implantations undertaken in the U.S.

As at June 30, 2008, one of the Company's distributors has estimated inventories of approximately \$500,000 of certain of the Company's product throughout its network. The Company has notified the distributor that it is in breach of certain terms of the distribution agreement and the distributors is working to remedy the breach.

Please refer to the Neovasc' Annual Information Form for a more extensive list of operating risks.

FOREIGN OPERATIONS

The majority of the Company's revenues are derived from product sales in the United States, primarily denominated in United States currency. The Company expects that international sales will continue to account for a significant portion of its revenues that are denominated in foreign currencies. Consequently, a decrease in the value of a relevant foreign currency in relation to the Canadian dollar, occurring after establishment of prices and before receipt of payment by Neovasc, has an adverse effect on the Company's results of operations. 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 unaudited interim consolidated financial statements for the three and six months ended June 30, 2008 and 2007.

DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

This section analyzes the significant changes in the unaudited interim consolidated financial statements of operations and deficit and cash flows for the three and six months ended June 30, 2008, compared to those for the same period ended June 30, 2007 and compares the financial condition at June 30, 2008 to that at December 31, 2007.

Results of Operations

Results for the three and six months ended March 31 2008 and 2007 follow:

Net Losses

The consolidated net loss for the three and six months ended June 30, 2008 was \$1,915,673 and \$3,657,248 or \$0.02 and \$0.03 per share as compared with a net loss of \$2,308,497 and \$3,728,549 or \$0.02 and \$0.04 per share for the comparative period in 2007.

Revenues

Revenues increased 25% year over year from \$345,811 for the three months ended June 30, 2007 to \$433,061 for the three months ended June 30, 2008 and increased 29% year over year from \$672,059 for the six months ended June 30, 2007 to \$866,546 for the six months ended June 30, 2008

Sales of catheter products for the six months ended June 30, 2007 were \$126,140, a marginal increase over sales of \$121,707 in the comparable period in 2007. The Company is continuing to strengthen its sales management and locate sales reps in high population areas in an effort to accelerate sales growth. In addition on July 1, 2008 the Company hired a vice-president, marketing to strengthen the positioning of the catheter products in the market place.

Sales of tissue and surgical products and services for the six months ended June 30, 2008 were \$740,406, as

compared to sales of \$550,352 for the six months ended June 30, 2007, an increase of approximately 35%. These revenues were derived from the sales of PeriPatch products and contract manufacturing.

Cost of Sales

The cost of sales for the three and six months ended June 30, 2008 were \$220,344 and \$428,604 as compared to \$201,189 and \$320,740 in 2007, and the overall gross margin for the first half of 2008 was 51% as compared to 52% in 2007. Within the cost of sales for 2007, the cost of underutilized capacity was \$25,144.

Expenses

Total expenses for the three and six months ended June 30, 2008 were \$2,074,216 and \$3,983,750 respectively as compared to \$2,483,607 and \$4,112,666 for the same periods in 2007. The decrease in expenses in 2008 relate principally to a decrease in the costs related to the GAAME trial and the stabilization of sale and marketing and general and administrative expenses.

Sales and marketing expenses were \$785,491 and \$1,534,995 for the three and six months ended June 30, 2008 as compared to \$785,131 and \$1,252,319 for the same periods in 2007. The roll out of the direct distribution channel for the Metricath product line in the United States slowed in the second quarter of 2008 due to staff turnover and management's decision to control marketing costs until new products from the described acquisitions and other sources could be added to the sales reps inventory.

General and administrative expenses for the three and six months ended June 30, 2008 remained relatively stable at \$779,363 and \$1,317,648 in 2008 as compared to \$783,663 and 1,293,614 in 2007, as the Company stabilized its administrative costs.

Product development and clinical trial expenses of \$414,958 and \$1,036,703 for the three and six months ended June 30, 2008 decreased by \$375,685 and \$405,860 respectively as compared to \$790,643 and 1,442,563 for the three and six months ended June 30, 2007. The principle reason for this decrease in expenses is the reduced development costs associated with the GAAME trial and associated PMA application.

Inventory write down

Neovasc completed its inventory rationalization process and wrote the remaining console raw materials inventory down to \$nil. The company recognized an impairment charge of \$94,404. The second quarter of 2007 was the start of the inventory review process and \$124,170 was written off during that period.

Amortization and Other expenses

Amortization and other expenses for the three and six months ended June 30, 2008 were \$54,174 and \$111,440 as compared to other income of \$30,488 and \$32,798 for the same periods in 2007. A decrease of \$58,777 in interest income in the first half of 2008 as compared to the first half of 2007 and a decrease of \$48,791 in the gain on foreign exchange in the first half of 2008 as compared to the first half of 2007 were the principal cause of this variance.

Quarterly Information

The following is a summary of selected unaudited financial information for the eight fiscal quarters to June 30, 2007:

	Quarter Ended - Unaudited			
	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007
Sales				
Catheter products	\$ 45,904	\$ 80,236	\$ 81,004	\$ 55,306
Tissue and surgical products and services	387,157	353,249	545,970	163,534
	<u>433,061</u>	<u>433,485</u>	<u>626,974</u>	<u>218,840</u>
Cost of sales	220,344	208,260	372,956	105,897
Expenses				
Selling	785,491	749,504	785,773	801,805
General and administration	779,363	538,285	539,385	504,988
Product development and clinical trials	414,958	621,745	683,379	618,971
Inventory Write Down	94,404	-	434,961	-
	<u>2,074,216</u>	<u>1,909,534</u>	<u>2,443,498</u>	<u>1,925,764</u>
EBITDA	(1,861,499)	(1,684,309)	(2,189,480)	(1,812,821)
Amortization/Other expenses	54,174	57,266	110,749	(10,645)
Net loss	<u>(1,915,673)</u>	<u>(1,741,575)</u>	<u>(2,300,229)</u>	<u>(1,802,176)</u>
Net loss per share	(0.02)	(0.02)	(0.02)	(0.02)

	Quarter Ended - Unaudited			
	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006
Sales				
Catheter products	\$ 51,432	\$ 70,275	\$ 82,020	\$ 32,258
Tissue/surgical products	294,379	255,973	56,738	186,301
	<u>345,811</u>	<u>326,248</u>	<u>138,758</u>	<u>218,559</u>
Cost of sales	201,189	119,551	228,084	112,855
Expenses				
Selling	785,131	467,188	596,785	440,762
General and administration	783,663	509,951	467,550	635,611
Product development and clinical trials	790,643	651,920	787,457	348,102
Inventory Write Down	124,170	-	-	-
	<u>2,483,607</u>	<u>1,629,059</u>	<u>1,851,792</u>	<u>1,424,475</u>
EBITDA	(2,338,985)	(1,422,362)	(1,941,118)	(1,318,771)
Amortization/Other expenses	(30,488)	(2,310)	16,865	(5,302)
Net loss	<u>(2,308,497)</u>	<u>(1,420,052)</u>	<u>(1,957,983)</u>	<u>(1,313,469)</u>
Net loss per share	(0.02)	(0.02)	(0.03)	(0.02)

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 June 30, 2008, the Company had cash and cash equivalents of \$118,847 and a bank overdraft of \$234,346 as compared to cash of \$3,242,404 as of December 31, 2007. At June 30, 2008 the Company had a working capital deficit of \$99,826 as compared to working capital of \$3,431,266 at December 31, 2007. In addition, at June 30, 2008 the Company had restricted cash related to a security on long-term debt of \$50,000 (December 31, 2007 - \$50,000) included in long-term assets. The completion of a \$8,325,000 financing subsequent to the period end recapitalized the Company and provided the necessary cash flow for ongoing operations (see subsequent events section).

Cash used in operations was \$1,527,982 and \$3,327,793 for the three and six months ended June 30, 2007, as compared to \$1,798,851 and \$3,031,590 for the three and six months ended March 31, 2007. The consumption of cash fell in the second quarter of the year as the costs related to the GAAME trial declined as the trial nears completion and the expenses related to sales and marketing and general and administrative stabilized.

Cash used in investing activities was \$6,510 and \$13,692 for the three and six months ended June 30, 2008 and \$12,324 and \$33,142 in 2007 as there were no major undertakings in either period.

There were no material financing activities in the three or six months ended June 30, 2007, however, on April 24, 2007, pursuant to a public offering under a short form prospectus dated April 13, 2007, the Company issued 38,709,110 units of the Company at a price of \$0.20 per unit for aggregate gross proceeds of \$7,741,822. Each unit consisted of one common share and one-half of one non-transferable common share purchase warrant entitling the holder to purchase one additional common share for every whole warrant at a price of \$0.25 per share, expiring on October 24, 2008. On closing, the Agent received non-transferable share purchase warrants to purchase up to 1,659,356 common shares at a price of \$0.20 per share, exercisable until October 24, 2008. Share issue costs amounted to \$722,711 for net proceeds of \$7,019,111. Subsequent to the financing on May 4, 2007, the Agent exercised 1,161,549 agent warrants at \$0.20 per share for aggregate gross proceeds of \$232,310.

SUBSEQUENT EVENTS

On January 30, 2008 the Company entered into an acquisition agreement to acquire Neovasc Medical Ltd and B-Balloon Ltd, two pre-commercial medical device

development companies based in Israel. The acquisition was completed on July 1, 2008 by way of a merger and Neovasc Medical Ltd and B-Balloon Ltd became wholly-owned subsidiaries of the Company.

Warrant and Option Offer

In connection with the acquisition, the Company made an offer to all of the holders of warrants and options outstanding as at April 30, 2008 to repurchase those warrants in exchange for a lesser number of common shares in the Company and amend the options to become a lesser number of nominally priced options. The offer to repurchase the warrants was made based on the value of such securities calculated using a modified (discounted) Black Scholes valuation method. The majority of the warrants were repurchased in exchange for common shares at a ratio of one common share for 5.75 warrants. The offer to amend the options was made based on the value of such securities using a modified Black Scholes valuation method, with a discount factor that was set by the Board using its discretion. An aggregate of 3,513,140 common shares were issued for the repurchase of the warrants and 315,000 warrants and 2,322,120 amended options remained. The warrant and option offer was completed to effectively increase the percentage retained after the acquisition by the former shareholders of the Company. The warrant and option offer was conditional upon completion of the acquisitions and was completed just prior to the acquisitions on July 1, 2008.

Share Consolidation

Concurrent with the acquisitions the Company consolidated its shares, warrants and options on a 1 for 20 basis.

Issuance of Securities

Pursuant to the acquisition agreement, one-third of the post acquisition ownership of the Company on a fully diluted basis, is now held by former securityholders of the Company, one-third is held by former Neovasc Medical Ltd securityholders and one-third is held by former B-Balloon Ltd securityholders. The Company had 5,858,000 shares, options and warrants outstanding on a fully-diluted basis immediately prior to the acquisitions. As a result, a total of 11,716,000 securities of the Company were issued, or reserved for issuance, to the securityholders of each of Neovasc Medical Ltd and B-Balloon Ltd. This resulted in a 17,574,000 fully diluted securities (including common shares, warrants, options and shares reserved for issuance) being outstanding immediately following the Acquisition.

MEV Financing

As condition of the acquisitions the Company was required to complete a concurrent non-brokered private placement of units to raise minimum gross proceeds of \$6,000,000. The actual proceeds raised on July 1, 2008 were \$8,325,000. The units were issued at a price of

\$4.00 per unit and consist of one common share of the Company and 0.62 of a warrant. Each whole warrant is exercisable to purchase one additional common share of the Company at a price of \$5.00 for a period of 18 months from July 1, 2008.

Name Change

Concurrent with the completion of the acquisitions on July 1, 2008, the Company changed its name to Neovasc Inc.

OUTSTANDING SHARE DATA

As at June 30, 2008, the Company had 111,209,545 common voting shares issued and outstanding. Further, the following securities are convertible into exercisable or exchangeable for common shares of the Company: 4,061,328 stock options with a weighted average price of \$0.30, and 20,399,466 share purchase warrants with exercise prices ranging from \$0.25 to \$0.75.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheets arrangements.

RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in Note 11 of the unaudited interim consolidated financial statements. Neovasc has a contract with a corporation owned by its CEO for his services that are invoiced monthly. All other related party transactions are invoiced to Neovasc on a month-to-month basis for services rendered. There are no potential material termination clauses in any of the related party agreements.

PROPOSED TRANSACTIONS

The Company is not party to any transaction requiring additional disclosure except as disclosed in the preceding new acquisition section of this document.

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 six month period ending June 30, 2008.