



Neovasc Inc.
UNAUDITED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2010 AND 2009

(Expressed in Canadian Dollars)

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NEOVASC INC.

Notice of No Auditor Review of Interim Consolidated Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the Interim Financial Statements they must be accompanied by a notice that the financial statements have not been reviewed by an auditor.

The accompanying Unaudited Interim Consolidated Financial Statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

The Company's independent auditors have not performed a review of these Interim Consolidated Financial Statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of Interim Financial Statements by an entity's auditors.

NEOVASC INC.

Interim Consolidated Balance Sheets

As at

	September 30, 2010	December 31, 2009
	(Unaudited)	
ASSETS		
CURRENT		
Cash	\$ 841,421	\$ 111,368
Accounts receivable	488,381	442,540
Inventory (Note 6)	641,699	404,309
Prepaid expenses	57,643	15,771
	2,029,144	973,988
RESTRICTED CASH EQUIVALENTS (NOTE 8)	50,000	50,000
PROPERTY AND EQUIPMENT (Note 7)	1,252,089	1,249,326
	\$ 3,331,233	\$ 2,273,314
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 555,658	\$ 962,512
Current portion of long-term debt	40,778	39,978
	596,436	1,002,490
LONG-TERM DEBT (Note 8)	326,994	357,097
	923,430	1,359,587
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	63,590,510	60,648,625
Contributed surplus (Note 9)	5,002,275	4,631,349
Deficit	(66,184,982)	(64,366,247)
	2,407,803	913,727
	\$ 3,331,233	\$ 2,273,314

GOING CONCERN (Note 2)

APPROVED BY THE DIRECTORS:

(signed) Alexei Marko

Alexei Marko, Director

(signed) Steven Rubin

Steven Rubin, Director

See Accompanying Notes to the Audited Consolidated Financial Statements

NEOVASC INC.

Interim Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the three and nine months ended September 30

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
SALES (Note 11)				
Product sales	\$ 639,356	\$ 573,778	\$ 2,024,053	\$ 1,402,177
Consulting services	375,144	426,589	1,016,208	553,998
	1,014,500	1,000,367	3,040,261	1,956,175
COST OF GOODS SOLD	563,937	465,565	1,759,508	892,590
GROSS PROFIT	450,563	534,802	1,280,753	1,063,585
EXPENSES				
Selling	40,763	94,412	135,012	560,980
General and administration	465,632	576,804	1,649,960	1,986,637
Product development and clinical trials	325,045	517,456	1,211,608	2,258,938
Amortization	30,863	111,417	89,015	174,876
	862,303	1,300,089	3,085,595	4,981,431
LOSS BEFORE OTHER INCOME (EXPENSES)	(411,740)	(765,287)	(1,804,842)	(3,917,846)
OTHER INCOME (EXPENSES)				
Interest income	119	904	348	11,880
Interest on long-term debt	(2,223)	(2,458)	(7,552)	(7,987)
Gain/(Loss) on foreign exchange	3,127	(35,607)	(6,689)	34,814
	1,023	(37,161)	(13,893)	38,707
NET LOSS AND COMPREHENSIVE				
LOSS FOR THE PERIOD	(410,717)	(802,448)	(1,818,735)	(3,879,139)
DEFICIT, BEGINNING OF PERIOD	(65,774,265)	(62,966,654)	(64,366,247)	(59,889,963)
DEFICIT, END OF PERIOD	\$ (66,184,982)	\$ (63,769,102)	\$ (66,184,982)	\$ (63,769,102)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.01)	\$ (0.03)	\$ (0.05)	\$ (0.16)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	37,832,943	27,384,365	34,852,714	24,175,227
WEIGHTED AVERAGE NUMBER OF FULLY DILUTED SHARES OUTSTANDING	38,606,793	28,202,575	35,634,827	28,220,087

See Accompanying Notes to the Audited Consolidated Financial Statements

NEOVASC INC.

Interim Consolidated Statements of Cash Flows

For the three and nine months ended September 30

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES				
Net loss for the period	(410,717)	(802,448)	\$ (1,818,735)	\$ (3,879,139)
Items not affecting cash:				
Amortization	30,863	111,417	89,015	174,876
Stock-based compensation	92,748	40,390	401,792	166,841
Loss on disposal of equipment	-	-	9,912	-
	(287,106)	(650,641)	(1,318,016)	(3,537,422)
Change in non-cash operating assets and liabilities				
Accounts receivable	(83,874)	(87,026)	(45,841)	(58,609)
Inventory	(50,912)	40,422	(237,390)	(144,164)
Prepaid expenses and other assets	(5,378)	31,594	(41,872)	25,430
Accounts payable and accrued liabilities	(59,396)	(55,579)	(406,854)	(114,811)
	(486,666)	(721,230)	(2,049,973)	(3,829,576)
INVESTING ACTIVITY				
Proceeds from disposal of equipment	-	-	5,790	-
Purchase of property and equipment	(74,122)	(44,689)	(107,480)	(53,234)
	(74,122)	(44,689)	(101,690)	(53,234)
FINANCING ACTIVITIES				
Repayment of long-term debt	(10,062)	(9,828)	(29,303)	(32,146)
Proceeds from share issue, net of costs of \$22,015	-	-	2,905,267	1,979,686
Proceeds from exercise of stock options	-	-	5,752	1,555
	(10,062)	(9,828)	2,881,716	1,949,095
(DECREASE)/INCREASE IN CASH	(570,850)	(775,747)	730,053	(1,933,715)
CASH, BEGINNING OF PERIOD	1,412,271	1,340,471	111,368	2,498,439
CASH, END OF PERIOD	\$ 841,421	\$ 564,724	\$ 841,421	\$ 564,724
SUPPLEMENTAL CASH FLOW INFORMATION				
Interest paid	\$ 2,223	\$ 2,662	\$ 7,552	\$ 19,952

See Accompanying Notes to the Audited Consolidated Financial Statements

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2010 and 2009

1. INCORPORATION AND NATURE OF BUSINESS

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" or the "Company").

Neovasc is a specialty vascular device company that develops, manufactures and markets medical devices for the rapidly growing vascular marketplace. The company's current products include the Neovasc Reducer™, an innovative product in development to treat refractory angina, as well as 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 such as percutaneous heart valves.

2. GOING CONCERN

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a basis consistent with the Company's financial statements for the year ended December 31, 2009. These interim unaudited consolidated financial statements should be read together with the audited consolidated financial statements of the Company as at December 31, 2009 and the accompanying notes included in those financial statements. For a full description of accounting policies, refer to the audited consolidated financial statements of the Company for the year ended December 31, 2009. As permitted by Canadian generally accepted accounting principles certain information and footnote disclosure normally included in annual consolidated financial statements has been condensed or omitted. In the opinion of management, all adjustments necessary to present fairly the financial condition, results of operations and cash flows at September 30, 2010 and for all periods presented, have been made. Interim results are not necessarily indicative of results that may occur for a full year.

These interim consolidated financial statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has incurred operating losses of \$410,717 and \$1,818,735 for the three and nine months ended September 30, 2010 (2009: \$802,448 and \$3,879,139) and has a deficit of \$66,184,982 as at September 30, 2010 compared to a deficit of \$64,366,247 as at December 31, 2009. 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.

In the medium to long-term the Company will continue its strategy of business development to increase its existing revenue streams and product development to generate new revenue streams from new products. In the short-term the Company has 2,845,831 warrants outstanding (see note 9 (d) (iii) which could potentially generate proceeds of \$1,138,332 for the Company, if fully exercised. The last of these warrants will expire on February 19, 2011. There is no certainty that the warrants will be exercised and the Company may need to obtain additional debt or equity financing to fund ongoing operations.

If the going concern basis was not appropriate for these consolidated financial statements, significant adjustments would be necessary to the carrying values of the Company's assets and liabilities, reported expenses and balance sheet classifications.

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2010 and 2009

3. CHANGES IN ACCOUNTING POLICIES

During the nine months ended September 30, 2010, there have been no changes in accounting policies.

Recently released accounting standards:

Business Combinations

In December 2008, CICA issued CICA Handbook Section 1582, Business Combinations, which will replace Section 1582, Business Combinations. This Section establishes revised standards for the accounting for a business combination which are aligned with IFRS on business combinations. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

The Corporation does not intend to early apply these sections. The impact on the Corporation's consolidated financial statements from the application of this section will depend upon the nature of any future business acquisitions made by the Corporation after adoption.

Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued CICA Handbook Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. Together these Sections replace the former Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination and is equivalent to the corresponding provisions of IFRS IAS 27, "Consolidated and Separate Financial Statements". The new standards result in measuring business acquisitions at the fair value of the acquired business and a prospectively applied shift from a parent corporation conceptual view of consolidation theory (which results in the parent corporation recording book values attributable to non-controlling interests) to an entity conceptual view (which results in the parent corporation recording fair values attributable to non-controlling interests). These sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 and are to be applied prospectively. Earlier adoption is permitted as of the beginning of a fiscal year. An entity adopting these Sections for a fiscal year beginning before January 1, 2011 must also adopt Section 1582, Business Combinations.

The Corporation does not intend to early apply the section. The impact on the Corporation's consolidated financial statements from the application of these sections will depend upon the nature of any future business acquisitions made by the Corporation after adoption.

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, as disclosed on its balance sheet: deficit, share capital, cash and cash equivalents 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, issue new debt (secured, unsecured, convertible and/or other types of available debt instruments), acquire or dispose of assets, or adjust the amount of cash or short-term investment balances.

As at September 30, 2010, the Company was in compliance with externally imposed capital requirements and covenants.

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2010 and 2009

5. FINANCIAL INSTRUMENTS

Financial Instruments

The Company classifies its cash and cash equivalents and bank overdraft as held-for-trading and carries them at fair-value. Accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities. The Company had neither available-for-sale, nor held-to-maturity instruments as at September 30, 2010 and at December 31, 2009. Loans and receivables and other financial liabilities have been recorded at amortized cost using the effective interest rate method.

(a) Cash equivalents

The Company holds cashable guaranteed investment certificates ("GIC") returning a fixed rate of interest of 0.90%. The GIC has an initial term of one-year and matures on July 7, 2011 and is renewed annually.

(b) 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 currency. 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 63% and 32%, respectively, of the revenue for the nine months ended September 30, 2010. A 1% change in the foreign exchange rate for United States and European Union currency will result in a change in revenues of approximately \$19,300 and \$9,600 respectively.

(c) Interest rate risk

The Company makes fixed repayments on its long-term debt as described in Note 8. Included in the repayments is an interest payment with an interest rate floating at prime rate. 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 loan. A 1% change in the interest rate on the long-term debt will change the interest rate expense for the quarter by approximately \$1,000 and inversely change the amount of principal repaid by the same amount.

(d) Liquidity risk

The Company has incurred operating losses since inception, as described in Note 2. 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 Company reviews its cash flows on a quarterly basis and forecasts expected break even points and the timing of additional cash flows. The maturity of the Company's long-term debt is described in Note 8. The Company has minimal risk associated with the maturity of its long-term debts.

As at September 30, 2010 the Company had working capital of \$1,432,708 as compared to a working capital deficit of \$28,502 at December 31, 2009.

(e) 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. At September 30, 2010 the Company had \$12,526 of trade accounts receivable that was overdue. During the nine months ended September 30, 2010 the Company has written down bad debts of \$21,410.

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2010 and 2009

6. INVENTORY

	September 30, 2010 (Unaudited)	December 31, 2009
Materials	\$ 397,600	\$ 152,729
Work in progress	116,928	74,318
Finished goods	127,171	177,262
	\$ 641,699	\$ 404,309

7. PROPERTY AND EQUIPMENT

	September 30, 2010 (Unaudited)		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 207,347	-	\$ 207,347
Building	1,074,682	215,990	858,692
Production equipment	528,561	431,388	97,173
Field assets	131,794	131,794	-
Computer hardware	170,279	133,316	36,963
Computer software	216,739	203,453	13,286
Office equipment, furniture and fixtures	160,023	123,395	36,628
	\$ 2,489,425	\$ 1,239,336	\$ 1,250,089

	December 31, 2009		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 207,347	\$ -	\$ 207,347
Building	1,013,859	191,209	822,650
Production equipment	523,504	404,071	119,433
Field assets	131,794	131,794	-
Computer hardware	162,408	124,628	37,780
Computer software	184,995	182,962	2,033
Office equipment, furniture and fixtures	182,980	122,897	60,083
	\$ 2,406,887	\$ 1,157,561	\$ 1,249,326

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2010 and 2009

8. LONG-TERM DEBT

	September 30, 2010 (Unaudited)	December 31, 2009
Bank instalment loan	\$ 367,772	\$ 397,075
Less current portion	(40,778)	(39,978)
	\$ 326,994	\$ 357,097

Repayments will consist of 180 regular blended payments of \$4,095 each month, including interest and principal, commencing on September 1, 2007 and ending on August 1, 2022. The loan is collateralized by a first charge over the Company's land and buildings, a liquid security agreement of \$50,000 to be held in cash equivalent investments and a general security agreement over all personal property of the business now owned and all personal property acquired in the future. The loan bears interest at prime.

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

2010	\$ 40,778
2011	41,767
2012	42,781
2013	43,819
2014	44,882
Thereafter	153,745
	\$ 367,772

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2010 and 2009

9. SHARE CAPITAL

All share data and per share amounts have been adjusted to retroactively restate the impact of the reverse stock split on a 20 for 1 basis that took place on July 1, 2008.

(a) *Authorized*

Unlimited number of common shares without par value

Unlimited number of preferred shares without par value

(b) <i>Issued and outstanding</i>	Common Shares		Contributed
	Number	Amount	Surplus
Balance, December 31, 2008	17,702,026	\$ 58,607,066	\$ 4,436,804
Issued for cash pursuant to a private placement (i)	9,523,810	2,000,000	
Share issue costs (i)		(20,314)	
Stock-based compensation			253,797
Issued for cash on exercise of options	163,857	61,873	(59,252)
Balance, December 31, 2009	27,389,693	60,648,625	4,631,349
Issued for cash pursuant to a private placement (ii)	5,691,658	1,536,748	
Share issue costs (ii)		(22,015)	
Issued for cash on exercise of warrants (iii)	4,635,114	1,390,534	
Stock-based compensation			401,792
Issued for cash on exercise of options	116,478	36,618	(30,866)
Balance, September 30, 2010 (Unaudited)	37,832,943	\$ 63,590,510	\$ 5,002,275

- (i) On April 23, 2009, the Company completed a non-brokered private placement of 9,523,810 units at the price of \$0.21 per unit for aggregate gross proceeds of \$2,000,000. 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 \$0.30 per share for a period of one-year after the closing date of the offering. Share issue costs were \$20,314.
- (ii) 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 \$22,015.
- (iii) 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 (see note 9 (d) (iii)). 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.

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2010 and 2009

9. SHARE CAPITAL (Continued)

(c) Stock-based compensation

The Company adopted a Stock Option Plan under which the directors of the Company may grant options to purchase common shares to directors, officers, employees and service providers (the "optionees") of the Company on terms that the directors of the Company may determine within the limitations set forth in the Stock Option Plan. Effective November 22, 2005, the board of directors of the Company approved an amendment to the Company's incentive Stock Option Plan to increase the number of options available for grant under the plan to 10% of the number of common shares of the Company outstanding from time to time.

Options under the Company's Stock Option Plan granted to directors may vest immediately and options granted to employees and officers vest over a four-year term. The directors of the Company have discretion within the limitations set forth in the Stock Option Plan to determine other vesting terms on options granted to directors, officers, employees and others. The minimum exercise price of a stock option cannot be less than the applicable market price of the common shares on the date of the grant and the options have a maximum exercise period of five years. The following table summarizes stock option activity for the respective periods as follows:

	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Life (years)
Options outstanding, December 31, 2008	2,177,182	\$ 0.57	6.01
Granted	599,500	\$ 0.40	3.17
Exercised	(163,853)	\$ 0.02	-
Forfeited	(282,971)	\$ 1.17	-
Expired	(187)	\$ 0.20	-
Options outstanding, December 31, 2009	2,329,671	\$ 0.49	4.79
Granted	1,917,715	\$ 0.36	4.44
Exercised	(116,478)	\$ 0.05	
Forfeited	(65,272)	\$ 0.40	
Expired	(1,735)	\$ 0.20	
Options outstanding, September 30, 2010 (Unaudited)	4,063,901	\$ 0.44	4.27
Options exercisable, September 30, 2010 (Unaudited)	2,064,551	\$ 0.35	4.53
Weighted average grant date fair value of stock options awarded during the period	\$ 0.31		

During the three and nine months ended September 30, 2010, the Company recorded \$92,748 and \$401,792 (2009 – \$40,390 and \$166,841) as compensation expense for stock-based compensation awarded to employees. The Company used the Black-Scholes option pricing model to estimate the value of the options at each grant date using the following weighted average assumptions:

	2010	2009
Dividend yield	nil	nil
Annualized volatility	129%	149%
Risk-free interest rate	2.50%	2.00%
Expected life	5 years	5 years

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2010 and 2009

9. SHARE CAPITAL (Continued)

(d) *Warrants*

The following table summarizes the share warrant activity for the respective periods as follows:

	Number of Warrants
Balance, December 31, 2008	2,065,769
Issued pursuant to a private placement (i)	4,761,902
Expired	(2,065,769)
Balance, December 31, 2009	4,761,902
Issued pursuant to a private placement (ii)	2,845,831
Exercised (iii)	(4,635,114)
Expired (iii)	(126,788)
Balance, September 30, 2010 (Unaudited)	2,845,831

- (i) Pursuant to the non-brokered private placement on April 23, 2009 (see note 9 (b) (i)), the Company issued 4,761,902 warrants. Each whole warrant will entitle the holder to purchase one common share of Neovasc stock at the exercise price of \$0.30 per share for a period of one-year from April 23, 2009.
- (ii) Pursuant to the non-brokered private placement on February 19, 2010 (see note 9 (b) (ii)), the Company issued 2,845,831 warrants. 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 from February 19, 2010.
- (iii) On April 23, 2010, there were 4,635,114 warrants exercised, as part of the Company's April 2009 financing (see note 9 (d) (i)). 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.

The following table summarizes the warrants outstanding and exercisable at September 30, 2010:

	Average Remaining Contractual	
Number Outstanding	Life	Weighted Average Exercise Price
2,845,831	0.39	0.40

The Company used the Black-Scholes option pricing model to estimate the value of the agents' warrants at each grant date using the following weighted average assumptions:

	2010	2009
Dividend yield	nil	nil
Annualized volatility	129%	149%
Risk-free interest rate	2.50%	2.00%
Expected life	1 year	1 year

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2010 and 2009

10. RELATED PARTY TRANSACTIONS

Related party transactions are entered into in the normal course of operations and are recorded at amounts established and agreed on between the related parties. During the nine months ended September 30, 2009 the former CEO charged the company for services in the amount of \$11,180. The services of the former CEO were provided to the Company by a corporation controlled by the former CEO. The Company and the corporation have a director in common. These services were provided to help transition the responsibilities to the new CEO and ceased in January 2009. The former CEO continues to serve as chairman of the Company. The carrying amounts of the accounts receivable and accounts payable approximate fair values due to their short-term nature.

11. SEGMENT INFORMATION

The Company's operations are in one business segment; the development, manufacture and marketing of medical devices. Each of the Company's product lines has similar characteristics, customers, distribution and marketing strategies, and are subject to similar regulatory requirements.

Substantially all of the Company's long-lived assets are located in Canada. The Company carries on business in Canada and to a lesser extent in Israel. It earns revenue from sales to customers in the following geographic locations:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
SALES	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Canada	\$ 65,156	\$ 16,533	\$ 146,271	\$ 75,060
United States	612,943	344,452	1,482,987	862,478
Other	336,401	639,382	1,411,003	1,018,637
	<u>\$ 1,014,500</u>	<u>\$ 1,000,367</u>	<u>\$ 3,040,261</u>	<u>\$ 1,956,175</u>

For the three and nine months ended September 30, 2010, 60% and 49% of the company's revenues were derived from customers located in the United States, and 33% and 46% of the Company's revenues were derived from customers located in Europe. Sales to the Company's three largest customers accounted for approximately 42%, 22% and 6% of the Company's sales for the three months ended September 30, 2010, and 37%, 25% and 11% of the Company's sales for the nine months ended September 30, 2010. Comparatively, sales to the Company's three largest customers accounted for approximately 43%, 19% and 11% of the Company's sales for the three months ended September 30, 2009, and 28%, 28% and 7% of the Company's sales for the nine months ended September 30, 2009.

12. SUBSEQUENT EVENTS

On November 8, 2010, 2,519,538 warrants were exercised for an equivalent number of common shares of the Company, generating proceeds of \$1,007,815. There are now 326,293 warrants remaining from the financing completed on February 19, 2010, exercisable at \$0.40, 197,122 of which expire on January 29, 2010 and the remainder on February 18, 2010.