Neovasc Inc.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010

(Expressed in Canadian dollars)

CONTENTS

Independent auditor's report

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To the shareholders of Neovasc Inc.

We have audited the accompanying consolidated financial statements of Neovasc Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity, and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Neovasc Inc. as at December 31, 2011, December 31, 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010, in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 2 of the consolidated financial statements which indicates that the Company has incurred a net loss of $3,860,176 for the year ended December 31, 2011, and total losses of $70,992,385 to date. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Grant Thornton LLP

Vancouver, Canada

April 24, 2011

Chartered accountant

NEOVASC INC.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Notes	**December 31, 2011**	December 31, 2010 (Note 22)	January 1, 2010 (Note 22)
ASSETS				
Current assets				
Cash and cash equivalents	6	**$ 2,404,510**	$ 1,489,027	$ 298,265
Investments	7	**1,504,290**	-	-
Accounts receivable	8	**735,680**	661,999	442,540
Inventory	9	**300,773**	469,744	404,309
Prepaid expenses and other assets		**23,372**	33,729	15,771
Total current assets		**4,968,625**	2,654,499	1,160,885
Non-current assets				
Property, plant and equipment	10	**1,290,651**	1,224,481	1,249,326
Restricted cash and cash equivalents	13	**40,840**	50,000	50,000
Total non-current assets		**1,331,491**	1,274,481	1,299,326
Total assets		**$ 6,300,116**	$ 3,928,980	$ 2,460,211
LIABILITIES AND EQUITY				
Liabilities				
Current liabilities				
Bank overdraft	11	**$ -**	$ 213,280	$ 186,897
Accounts payable and accrued liabilities	12	**591,476**	647,877	962,512
Current portion of long-term debt	13	**41,568**	40,630	39,978
Total current liabilities		**633,044**	901,787	1,189,387
Non-current liabilities				
Long-term debt	13	**280,642**	318,872	357,097
Total non-current liabilities		**280,642**	318,872	357,097
Total liabilities		**913,686**	1,220,659	1,546,484
Equity				
Share capital	15	**70,220,381**	64,841,468	60,648,625
Contributed surplus	15	**6,158,434**	4,999,062	4,696,007
Deficit		**(70,992,385)**	(67,132,209)	(64,430,905)
Total equity		**5,386,430**	2,708,321	913,727
Total liabilities and equity		**$ 6,300,116**	$ 3,928,980	$ 2,460,211

GOING CONCERN (see Note 2(b))

NEOVASC INC.

Consolidated Statements of Comprehensive Loss
For the years ended December 31,
(Expressed in Canadian dollars)

	Notes	2011	2010 (Note 22)
REVENUE			
Product sales		**$ 1,785,324**	$ 2,149,691
Contract manufacturing		**1,809,448**	850,613
Consulting services		**1,660,989**	1,358,521
	17	**5,255,761**	4,358,825
COST OF GOODS SOLD	18	**3,192,976**	2,632,988
GROSS PROFIT		**2,062,785**	1,725,837
EXPENSES			
Selling expenses	18	**192,355**	190,743
General and administrative expenses	18	**3,128,721**	2,319,083
Product development and clinical trials expenses	18	**2,624,768**	1,842,143
		5,945,844	4,351,969
OPERATING LOSS		**(3,883,059)**	(2,626,132)
OTHER INCOME/(EXPENSE)			
Interest income		**7,075**	466
Interest expense		**(11,848)**	(11,567)
Loss on disposal of property and equipment		**-**	(9,912)
Gain/(loss) on foreign exchange		**27,656**	(54,159)
		22,883	(75,172)
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		**$ (3,860,176)**	$ (2,701,304)
LOSS PER SHARE			
Basic and diluted loss per share	19	**$ (0.09)**	$ (0.08)

See Accompanying Notes to Consolidated Financial Statements

NEOVASC INC.

Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars)

	Notes	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at January 1, 2010		**$ 60,648,625**	**$ 4,696,007**	**$ (64,430,905)**	**$ 913,727**
Issue of share capital pursuant to a private placement	15(b)(i)	1,511,141	-	-	1,511,141
Issue of share capital on exercise of warrants	15(b)(ii&iii)	2,398,349	-	-	2,398,349
Issue of share capital on exercise of options	15(b)	283,353	(277,467)	-	5,886
Share-based payments	15(b)	-	580,522	-	580,522
Transaction with owners during the year		**4,192,843**	**303,055**	**-**	**4,495,898**
Loss and comprehensive loss for the year		**-**	**-**	**(2,701,304)**	**(2,701,304)**
Balance at December 31, 2010		**$ 64,841,468**	**$ 4,999,062**	**$ (67,132,209)**	**$ 2,708,321**
Issue of share capital pursuant to a private placement	15(b)(v)	4,677,636	-	-	4,677,636
Issue of share capital on exercise of warrants	15(b)(iv)	130,517	-	-	130,517
Issue of share capital on exercise of options	15(b)	570,760	(539,774)	-	30,986
Share-based payments	15(b)	-	1,699,146	-	1,699,146
Transaction with owners during the year		5,378,913	1,159,372	-	6,538,285
Loss and comprehensive loss for the year		**-**	**-**	**(3,860,176)**	**(3,860,176)**
Balance at December 31, 2011		**$ 70,220,381**	**$ 6,158,434**	**$ (70,992,385)**	**$ 5,386,430**

See Accompanying Notes to Consolidated Financial Statements

NEOVASC INC.

Consolidated Statements of Cash Flows
For the years ended December 31,
(Expressed in Canadian dollars)

	Notes	2011	2010 (Note 22)
OPERATING ACTIVITIES			
Loss for the year		**$ (3,860,176)**	$ (2,701,304)
Adjustments for:			
Depreciation	18	**99,375**	123,118
Share-based payments	18	**1,699,146**	580,522
Loss on disposal of equipment		**-**	9,912
Interest income		**(7,075)**	(466)
Interest expense		**11,848**	11,567
		(2,056,882)	(1,976,651)
Net change in non-cash working capital items:			
Accounts receivable		**(73,681)**	(219,459)
Inventory		**168,971**	(65,435)
Prepaid expenses and other assets		**10,357**	(17,958)
Accounts payable and accrued liabilities		**(56,401)**	(314,635)
		49,246	(617,487)
Interest paid and received:			
Interest received		**7,075**	466
Interest paid		**(11,848)**	(11,567)
		(4,773)	(11,101)
		(2,012,409)	(2,605,239)
INVESTING ACTIVITIES			
Increase in investments in guaranteed investment certificates		**(1,504,290)**	-
Proceeds from disposal of equipment		**-**	5,790
Purchase of property, plant and equipment		**(165,545)**	(113,975)
		(1,669,835)	(108,185)
FINANCING ACTIVITIES			
(Decrease)/increase in bank overdraft		**(213,280)**	26,383
Decrease/(increase) in restricted cash & cash equivalents		**9,160**	-
Repayment of long-term debt		**(37,292)**	(37,573)
Proceeds from issue of shares, net of costs of $42,864 (2010: $25,607)		**4,677,636**	1,511,141
Proceeds from exercise of warrants		**130,517**	2,398,349
Proceeds from exercise of options		**30,986**	5,886
		4,597,727	3,904,186
NET CHANGE IN CASH AND CASH EQUIVALENTS		**915,483**	**1,190,762**
CASH AND CASH EQUIVALENTS			
Beginning of the year		**1,489,027**	298,265
End of the year		**$ 2,404,510**	$ 1,489,027
Represented by:			
Cash	6	**901,964**	1,486,836
Cashable high interest savings accounts	6	**1,201,688**	-
Cashable guaranteed investment certificate	6	**300,858**	2,191
		$ 2,404,510	$ 1,489,027

See Accompanying Notes to the Consolidated Financial Statements

1. INCORPORATION AND NATURE OF BUSINESS

Neovasc Inc. ("Neovasc" or the "Company") is a limited liability company incorporated and domiciled in Canada. The Company was incorporated as Medical Ventures Corp. under the Company Act (British Columbia) on November 2, 2000 and was continued under the Canada Business Corporations Act on April 19, 2002. On July 1, 2008, the Company changed its name to Neovasc Inc.

Neovasc is the parent company. The consolidated financial statements of the Company as at December 31, 2011, December 31, 2010 and January 1, 2010 and for the years ended December 31, 2011 and 2010 comprise the Company and its subsidiaries, all of which were wholly owned. Neovasc's registered office and its principal place of business is Suite 2135, 13700 Mayfield Place, Richmond, British Columbia, Canada, V6V 2E4. The Company's shares are listed on the TSX Venture Exchange.

Neovasc is a specialty medical device company that develops, manufactures and markets products for the rapidly growing cardiovascular marketplace. Its products include the Neovasc Reducer™ for the treatment of refractory angina, the Tiara™ technology in development for the transcatheter treatment of mitral valve disease and a line of advanced biological tissue products that are used as key components in a variety of third-party medical products, such as vascular surgical patches and transcatheter heart valves.

2. BASIS OF PREPARATION

(a) Statement of compliance with IFRS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These are the Company's first consolidated financial statements prepared in accordance with IFRS. IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. The explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 22.

(b) Going concern

These 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 $3,860,176 for the year ended December 31, 2011 (2010: $2,701,304) and has a deficit of $70,992,385 as at December 31, 2011 compared to a deficit of $67,132,209 as at December 31, 2010 and a deficit of $64,430,905 as at January 1, 2010. 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 plans to manage its cash flows and investment in development projects to match the cash generated from operations and from additional debt or equity financings. 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 will continue to monitor its cash requirements and may cut costs or obtain additional debt or equity financing to fund ongoing operations until profitability is achieved as appropriate.

The Company believes that successful execution of its development plans will result in sufficient cash flow to fund projected operational and investment requirements. However, no assurances can be given that the Company will be able to achieve all or part of these objectives as discussed above. Should the Company be unable to complete its development plans the Company is committed to implementing all or a portion of its contingency plan. This plan has been designed to reduce cash outflows, and includes, but is not limited to, deferring certain product development activities and further reducing sales and marketing and general and administrative expenses. The failure of the Company to meet all or part of its development plans or contingency plan may have a material adverse impact on the Company's financial position, results of operations and cash flows.

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 classifications in the consolidated statement of financial position.

2. BASIS OF PREPARATION (continued)

(c) Basis of measurement

The Company's consolidated financial statements have been prepared on the historical cost basis except for accounts receivable measured at amortized cost and inventory measured at net realizable value, as explained in the accounting policies set out in Notes 3(b) and 3(e), respectively.

(d) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries, Neovasc Medical Inc., Angiometrx Inc., Neovasc Medical Ltd., B-Balloon Ltd. and Neovasc (US) Inc. All intercompany balances and transactions have been eliminated upon consolidation.

(e) Presentation of financial statements

The Company has elected to present the 'Statement of Comprehensive Income' in a single statement.

The Company presents three statements of financial position for its first interim and annual IFRS financial statements. In future periods, the Company will present two comparative periods for the statement of financial position only when it: (i) applies an accounting policy retrospectively, (ii) makes a retrospective restatement of items in its consolidated financial statements, or (iii) reclassifies items in the consolidated financial statements.

(f) Use of estimates and management judgment

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates relate to the determination of the net realizable value of inventory (obsolescence provisions), allowance for doubtful accounts receivable, impairment of non-financial assets, useful lives of depreciable assets and expected life, volatility and forfeiture rates for share-based payments.

Inventories
The Company estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

Allowance for doubtful accounts receivable
The Company provides for bad debt by setting aside accounts receivable past due more than 121 days. Uncertainty relates to the actual collectability of customer balances that can vary from the Company's estimation.

Impairment of long-lived assets
In assessing impairment, the Company estimates the recoverable amount of each asset or cash generating units based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Useful lives of depreciable assets
The Company reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utilization of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utilization of certain software and equipment.

Share-based payment
The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and forfeiture rates and making assumptions about them.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS consolidated statements of financial position at January 1, 2010 for the purposes of the transition to IFRS.

(a) Foreign currency translation

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

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

(b) Financial instruments

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

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

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

(c) Cash and cash equivalents

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

In addition to cash and cash equivalents, the Company has restricted cash of US$40,000 representing security for the Company's long-term debt (see Note 13).

(d) Investments

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

(e) Inventory

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment

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

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

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

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

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

(g) Impairment of assets

Financial assets (including accounts receivable)

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

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

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

Non-financial assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Employee benefits

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

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

(i) Revenue recognition

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

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

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

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

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

(k) Research and development

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

(l) Government assistance

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

(m) Interest income and interest expense

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Income taxes

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

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

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

(o) Equity

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

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

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

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

Deficit includes all current and prior period losses.

(p) Share-based payments

The Company has an equity-settled share-based stock option plan. The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants (see Note 15(c)).

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Loss per share

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

(r) Operating segment

The Company operates its business in one segment. The Company reports information about revenues from customers for products sales, contract manufacturing and consulting services, from geographical areas, and from major customers (see Note 17).

(s) Future Accounting Pronouncements

All accounting standards effective for periods beginning on or after January 1, 2011 have been adopted as part of the transition to IFRS. The following new accounting pronouncements have been issued but are not effective and may have an impact on the Company:

The Company will be required to adopt IFRS 10 Consolidated Financial Statements ("IFRS 10") effective January 1, 2013, with earlier application permitted. IFRS 10 replaces the consolidation requirements in IAS 27 Consolidated and Separate Financial Statements ("IAS 27") and interpretation SIC-12 Consolidation—Special Purpose Entities ("SIC-12"). IFRS 10 provides a revised definition of control and related application guidance so that a single control model can be applied to all entities. IFRS 10 also enhances disclosures about consolidated and unconsolidated entities to be published in a separate comprehensive disclosure standard related to involvement in other entities. The Company has not early adopted this standard and is currently assessing the impact that this standard will have on the consolidated financial statements.

The Company will be required to adopt IFRS 13, Fair Value Measurement ("IFRS 13") effective January 1, 2013, with earlier application permitted. IFRS 13 sets out a single framework for measuring fair value and requires disclosures about fair value measurements. It does not determine when an asset, a liability or an entity's own equity instruments is measured at fair value. But, the measurement and disclosure requirements for IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). The Company has not early adopted this standard and is currently assessing the impact that this standard will have on the consolidated financial statements.

The Company will be required to adopt the amendments to IAS 1 Financial Statement Presentation ("IAS 1") effective January 1, 2013. These amendments improve the presentation of components of other comprehensive income ("OCI"). The amendments to this standard do not change the nature of the items that are currently recognized in OCI, but requires presentational changes. The Company is currently assessing the impact that this standard will have on the consolidated financial statements.

The Company will be required to adopt IFRS 9, Financial Instruments ("IFRS 9") effective January 1, 2015 with earlier application permitted. This is a result of the first phase of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 has also been amended not to require the restatement of comparative period financial statements for the initial application of the classification and measuring requirements of IFRS 9, but instead requires modified disclosures on transition to IFRS 9. The Company has not early adopted this standard and is currently assessing the impact that this standard will have on the consolidated financial statements.

(Expressed in Canadian dollars)

4. MANAGING CAPITAL

The Company's objectives, when managing capital, are to safeguard cash as well as maintain financial liquidity and flexibility in order to preserve its ability to meet financial obligations and deploy capital to grow its business. In the definition of capital, the Company includes equity and long-term debt. There has been no change in the definition since the prior period.

The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to business growth opportunities and changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue new shares, or new debt (secured, unsecured, convertible and/or other types of available debt instruments).

The capital of the Company is comprised of:

	December 31, 2011	December 31, 2010	January 1, 2010
Equity	**$ 5,386,430**	$ 2,708,321	$ 913,727
Long-term debt	**322,210**	359,502	397,075
	$ 5,708,640	$ 3,067,823	$ 1,310,802

The Company is subject to certain financial covenants in connection with its long-term debt, including a requirement to limit the amount of total debt in relation to total equity. As at December 31, 2011, December 31, 2010 and January 1, 2010, the Company was in compliance with all financial covenants associated with its long-term debt.

For the years ended December 31, 2011 and December 31, 2010 there were no changes in the Company's capital management policy.

5. FINANCIAL RISK MANAGEMENT

(a) Foreign exchange risk

The majority of the Company's revenues are derived from product sales in the United States and Europe, primarily denominated in United States and European Union 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 33% of the revenue for year ended December 31, 2011 (year ended December 31, 2010: 63% and 33% respectively). A 5% change in the foreign exchange rates for United States and European Union currencies will result in a change in revenues of approximately $166,000 and $87,000 respectively. A 5% change in the foreign exchange rates for the United States and European Union currencies will result in a change in foreign currency denominated accounts receivable of approximately $30,000 and $5,000 respectively and a change in foreign currency denominated accounts payable of approximately $6,200 and $650 respectively.

(b) Interest rate risk

The Company makes fixed repayments on its long-term debt (see Note 13). 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 bank loan. A 1% change in the interest rate on the bank loan will change the interest rate expense for the year by approximately $3,730 (2010: $3,750) and inversely change the amount of principal repaid by the same amount.

(c) Liquidity risk

The Company has incurred operating losses since inception (see Note 2(b)). 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.

As at December 31, 2011 the Company had working capital of $4,335,581 as compared to working capital of $1,752,712 at December 31, 2010 and negative working capital of $28,502 at January 1, 2010.

(d) Credit risk

Credit risk arises from the possibility that the entities to which the Company sells products may experience financial difficulty and be unable to fulfill their contractual obligations. This risk is mitigated by proactive credit management policies that include regular monitoring of the debtor's payment history and performance. The Company does not require collateral from its customers as security for trade accounts receivable but may require certain customers to pay in advance of any work being performed or product being shipped. The maximum exposure, if all of the Company's customers were to default at the same time is the full carrying value of the trade accounts receivable at December 31, 2011: $700,411 (December 31, 2010: $637,014 and January 1, 2010: $406,247).

As at December 31, 2011, the Company had $21,998, (December 31, 2010: $25,703 and January 1, 2010: $8,352) of trade accounts receivable that was overdue, according to the customers' credit terms. Of these the Company has provided for $3,868 of trade accounts receivable which management believes may be impaired (December 31, 2010: $781 and January 1, 2010: $2,664). During the years ended December 31, 2011 and 2010 the Company wrote down $nil of accounts receivable owed by customers.

(Expressed in Canadian dollars)

6. CASH AND CASH EQUIVALENTS

	December 31, 2011	December 31, 2010	January 1, 2010
Canadian dollars	**$ 445,563**	$ 195,825	$ 77,831
United States dollars	**456,052**	917,981	67,597
European euros	**349**	373,030	151,111
Deposits held in High Interest Savings Accounts (“HISAs”)	**1,201,688**	-	-
Deposits held as a Guaranteed Investments Certificate (“GIC”)	**300,000**	-	-
Accrued interest on GIC	**858**	2,191	1,726
	$ 2,404,510	$ 1,489,027	$ 298,265

The HISAs are fully cashable at any time and have a variable interest rate. The GIC is fully cashable, has a 90-day term, matures on January 18, 2012 and has a fixed interest of 1.45% per annum. In addition, as at December 31, 2011 the Company has restricted cash and cash equivalents of US$40,000 (December 31, 2010 - $50,000 and January 1, 2010 - $50,000, both held in a GIC) representing security for the Company’s long-term debt (see Note 13).

7. INVESTMENTS

	December 31, 2011	December 31, 2010	January 1, 2010
Deposits held as Guaranteed Investments Certificates (“GICs”)	**$ 1,500,000**	$ -	$ -
Accrued Interest on GICs	**4,290**	-	-
	$ 1,504,290	$ -	$ -

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

8. ACCOUNTS RECEIVABLE

	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	**$ 704,279**	$ 637,795	$ 408,911
Allowance for doubtful accounts	**(3,868)**	(781)	(2,664)
Net trade receivables	**700,411**	637,014	406,247
Other receivables	**35,269**	24,985	36,293
	$ 735,680	$ 661,999	$ 442,540

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value. The aging analysis of receivables is as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Not past due	**$ 682,281**	$ 612,092	$ 400,559
Past due 0 - 30 days	**18,130**	6,446	1,146
Past due 31 - 60 days	**-**	9,819	1,193
Past due 61 - 90 days	**-**	8,657	3,349
Past due 91 - 120 days	**-**	781	2,664
Past due more than 121 days	**3,868**	-	-
	$ 704,279	$ 637,795	$ 408,911

(Expressed in Canadian dollars)

8. ACCOUNTS RECEIVABLE (continued)

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

	December 31, 2011	December 31, 2010
Balance January 1,	**$ 781**	$ 2,664
Amounts recorded during period	**3,087**	(1,883)
	$ 3,868	$ 781

9. INVENTORY

	December 31, 2011	December 31, 2010	January 1, 2010
Raw materials	**$ 180,544**	$ 214,499	$ 152,729
Work in progress	**9,220**	184,922	74,318
Finished goods	**111,009**	70,323	177,262
	$ 300,773	$ 469,744	$ 404,309

During the year ended December 31, 2011 $2,284,761 (2010: $2,021,216) of inventory was expensed in cost of goods sold, and $62,734 (2010: $86,774) of inventory was used in internal development projects and expensed in product development and clinical trial expenses. All the inventories are pledged as security for the long-term debt of the Company (see Note 13).

(Expressed in Canadian dollars)

10. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Production equipment	Computer hardware	Computer software	Office equipment	Total
COST							
Balance at January 1, 2010	**$ 207,347**	**$ 1,013,859**	**$ 523,504**	**$ 162,408**	**$ 184,995**	**$ 182,980**	**$ 2,275,093**
Additions	-	67,318	5,057	7,871	31,744	1,985	113,975
Disposals	-	-	-	-	-	(22,941)	(22,941)
Balance at December 31, 2010	**$ 207,347**	**$ 1,081,177**	**$ 528,561**	**$ 170,279**	**$ 216,739**	**$ 162,024**	**$ 2,366,127**
Additions	-	94,801	38,751	6,914	25,079	-	165,545
Balance at December 31, 2011	**$ 207,347**	**$ 1,175,978**	**$ 567,312**	**$ 177,193**	**$ 241,818**	**$ 162,024**	**$ 2,531,672**
ACCUMULATED DEPRECIATION							
Balance at January 1, 2010	**$ -**	**$ 191,209**	**$ 404,071**	**$ 124,628**	**$ 182,962**	**$ 122,897**	**$ 1,025,767**
Depreciation for the year	-	33,623	36,654	12,112	30,673	10,056	123,118
Disposals	-	-	-	-	-	(7,239)	(7,239)
Balance at December 31, 2010	**$ -**	**$ 224,832**	**$ 440,725**	**$ 136,740**	**$ 213,635**	**$ 125,714**	**$ 1,141,646**
Depreciation for the year	-	36,478	34,014	11,660	9,961	7,262	99,375
Balance at December 31, 2011	**$ -**	**$ 261,310**	**$ 474,739**	**$ 148,400**	**$ 223,596**	**$ 132,976**	**$ 1,241,021**
CARRYING AMOUNTS							
At January 1, 2010	**$ 207,347**	**$ 822,650**	**$ 119,433**	**$ 37,780**	**$ 2,033**	**$ 60,083**	**$ 1,249,326**
At December 31, 2010	**$ 207,347**	**$ 856,345**	**$ 87,836**	**$ 33,539**	**$ 3,104**	**$ 36,310**	**$ 1,224,481**
At December 31, 2011	**$ 207,347**	**$ 914,668**	**$ 92,573**	**$ 28,793**	**$ 18,222**	**$ 29,048**	**$ 1,290,651**

As at December 31, 2011, all property, plant and equipment were pledged as security for the long-term debt of the Company (see Note 13).

(Expressed in Canadian dollars)

11. BANK OVERDRAFT

	December 31, 2011	December 31, 2010	January 1, 2010
Overdraft per bank statement	**$ -**	$ 138,512	$ 165,331
Outstanding cheques	**-**	74,768	21,566
	$ -	$ 213,280	$ 186,897

The Company has an operating line of credit with a variable annual interest rate at prime plus 0.500%. The maximum line of credit is $200,000. The Company monitors the line of credit and ensures that there are sufficient funds to cover the outstanding cheques as they are presented at the bank without exceeding the line of credit limit.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2011	December 31, 2010	January 1, 2010
Trade payables	**$ 339,534**	$ 414,333	$ 617,713
Accrued liabilities	**236,618**	225,552	245,105
Other payables	**15,324**	7,992	99,694
	$ 591,476	$ 647,877	$ 962,512

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

13. LONG-TERM DEBT

	December 31, 2011	December 31, 2010	January 1, 2010
Bank Installment loan	**$ 322,210**	$ 359,502	$ 397,075
Less current portion	**(41,568)**	(40,630)	(39,978)
	$ 280,642	$ 318,872	$ 357,097

Repayments consist of 180 regular blended payments of $4,095 each month, including interest and principal, commencing on September 1, 2007 and ending on or before August 1, 2022. The loan agreement as amended on June 17, 2011, is collateralized by a first charge over the Company's land and buildings, a liquid security agreement of US$40,000 to be held in cash and a general security agreement over all personal property of the business now owned and all personal property acquired in the future. The loan bears interest at prime plus 0.500% per annum.

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

	December 31, 2011	December 31, 2010	January 1, 2010
Year 1	**$ 41,568**	$ 40,630	$ 39,978
Year 2	**42,897**	41,972	41,040
Year 3	**43,938**	42,991	42,036
Year 4	**45,005**	44,034	43,056
Year 5	**46,097**	45,103	44,101
Thereafter	**102,705**	144,772	186,864
	$ 322,210	$ 359,502	$ 397,075

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

(Expressed in Canadian dollars)

14. INCOME TAXES

The relationship between the expected tax expense based on the combined federal and provincial income tax rate in Canada and the reported tax expense in the consolidated statement of comprehensive income can be reconciled as follows:

	For the years ended December 31, 2011	2010
Loss before income taxes	**$ (3,860,176)**	$ (2,701,304)
Statutory tax rate	**26.5%**	28.5%
Recovery of income taxes based on the combined Canadian federal and provincial statutory rates	**(1,022,947)**	(770,071)
Difference in tax rates between foreign jurisdictions and Canada	**22,528**	50,411
Share-based remuneration	**450,274**	165,449
Effect of rate change	**7,015**	3,215
Foreign exchange adjustment	**(13,204)**	29,589
Other differences	**(55,554)**	45,190
Expired tax losses	**278,703**	93,175
Unrecognized future tax benefits	**333,185**	383,042
Income tax expense	**-**	-

The Company recorded no deferred tax assets in the consolidated statement of financial position. The deferred unrecognized tax assets result from differences between the carrying amount and the tax basis of the following items:

	Year ended December 31, December 31, 2011	December 31, 2010	January 1, 2010
Deferred tax assets			
Investment tax credits	**$ 1,613,026**	$ 1,677,444	$ 1,311,233
Capital assets	**329,700**	313,372	280,115
Share issue expenses	**19,141**	53,696	122,977
Non-capital loss carry forwards	**10,688,665**	10,941,124	10,754,191
Research and development expenditures	**1,332,249**	1,229,261	1,115,688
	$ 13,982,781	$ 14,214,897	$ 13,584,204

As at December 31, 2011, the Company has approximately $5,300,000 of research and development expenditures available to reduce income taxes in the future periods, with no expiry date. The Company has loss carry forward balances for income tax purposes of approximately $43,000,000 that are available to reduce income taxes in the future periods, if any, expiring at various times through to the year 2031. The Company also has investment tax credits of approximately $2,100,000 available to reduce income taxes in the future periods, if any, expiring at various times through to the year 2031.

(Expressed in Canadian dollars)

15. SHARE CAPITAL

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

(a) Authorized

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

(b) Issued and outstanding

	Common Shares Number		Amount		Contributed Surplus
Balance, January 1, 2010	**27,389,693**	**$**	**60,648,625**	**$**	**4,696,007**
Issued for cash pursuant to a private placement (i)	5,691,658		1,536,748		
Share issue costs (i)			(25,607)		
Issued for cash on exercise of warrants (ii)	4,635,114		1,390,534		
Issued for cash on exercise of warrants (iii)	2,519,538		1,007,815		
Issued for cash on exercise of options	128,331		283,353		(277,467)
Share-based payments					580,522
Balance, December 31, 2010	**40,364,334**	**$**	**64,841,468**	**$**	**4,999,062**
Issued for cash on exercise of warrants (iv)	326,293		130,517		
Issued for cash pursuant to a private placement (v)	4,720,500		4,720,500		
Share issue costs (v)			(42,864)		
Issued for cash on exercise of options	301,522		570,760		(539,774)
Share-based payments					1,699,146
Balance, December 31, 2011	**45,712,649**	**$**	**70,220,381**	**$**	**6,158,434**

(i) 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 entitled 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.

(ii) 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.

(iii) 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 (see Note 15(b)(i)). Proceeds from the exercise of the 2,519,538 warrants amounted to $1,007,815.

(iv) On January 17, 2011 and February 15, 2011, the Company issued 197,922 and 128,371 common shares, respectively, upon the exercise of warrants issued as part of the Company's February 2010 financing (see Note 15(b)(i)). Proceeds from the exercise of the 326,293 warrants amounted to $130,517.

(v) On August 16, 2011, the Company completed a non-brokered private placement of 4,720,500 equity units at the price of $1.00 per unit for aggregate gross proceeds of approximately $4,720,500. 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 entitles the holder thereof to purchase one common share of Neovasc stock at the exercise price of $1.25 per share for a period of two years after the closing date of the offering. Share issue costs were $42,864.

(Expressed in Canadian dollars)

15. SHARE CAPITAL (continued)

(c) Stock options

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

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

	Number of options		Weighted average exercise price	Average remaining contractual life (years)
Options outstanding, January 1, 2010	**2,329,671**	**$**	**0.49**	**4.79**
Granted	2,007,965		0.38	
Exercised	(128,331)		0.05	
Forfeited	(71,268)		0.42	
Expired	(1,735)		0.20	
Options outstanding, December 31, 2010	**4,136,302**	**$**	**0.46**	**4.04**
Granted	2,468,250	$	1.00	
Exercised	(301,522)		0.10	
Forfeited	(7,550)		0.84	
Expired	(442)		0.20	
Options outstanding, December 31, 2011	**6,295,038**	**$**	**0.67**	**3.49**
Options exercisable, December 31, 2011	**4,574,101**	**$**	**0.59**	**3.45**
Weighted average measurement date fair value of stock options awarded during the year.		$	0.89	

The following table lists the options outstanding at December 31, 2011 by exercise price:

	Exercise price	**Options outstanding**	**Weighted average remaining term (yrs)**	**Options exercisable**	**Weighted average remaining term (yrs)**
$	0.01	546,743	5.08	546,743	5.08
$	0.20-0.40	2,424,795	2.95	1,805,520	2.95
$	0.97-1.15	3,323,500	3.74	1,343,838	3.16
		6,295,038		3,696,101	

The weighted average share price at the date of exercise for share options exercised for the year ended December 31, 2011 was $0.19 (2010: $0.05). During the year ended December 31, 2011, the Company recorded $1,699,146 as compensation expense for share-based compensation awarded to eligible optionees (2010: $580,522). The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the options at each measurement date using the following weighted average assumptions:

		2011		2010
Weighted average fair value	**$**	**0.89**	$	0.34
Dividend yield		**nil**		nil
Volatility		**141%**		129%
Risk-free interest rate		**2.75%**		2.50%
Expected life		**5 years**		5 years

(Expressed in Canadian dollars)

15. SHARE CAPITAL (continued)

(d) Warrants

	Number of warrants
Balance, January 1, 2010	**4,761,902**
Issued pursuant to a private placement (i)	2,845,831
Exercised (ii & iii)	(7,154,652)
Expired (ii)	(126,788)
Balance, December 31, 2010	**326,293**
Exercised (iv)	(326,293)
Issued pursuant to a private placement (v)	2,360,250
Balance, December 31, 2011	**2,360,250**

(i) Pursuant to the non-brokered private placement on February 19, 2010 (see Note 15(b)(i)), the Company issued 2,845,831 warrants. Each whole warrant entitled 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.

(ii) On April 23, 2010, there were 4,635,114 warrants exercised, 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.

(iii) On November 8, 2010, 2,519,538 warrants issued as part of the Company's February 2010 financing (see Note 15(b)(i)) were exercised. Proceeds from the exercise of the 2,519,538 warrants amounted to $1,007,815.

(iv) On January 17, 2011, and February 15, 2011, 197,922 and 128,371 warrants were issued as part of the Company's February 2010 financing (see Note 15(b)(i)) were exercised. Proceeds from the exercise of the 326,293 warrants amounted to $130,517.

(v) On August 16, 2011, 2,360,250 warrants issued as part of the Company's August 2011 financing (see Note 15 (b)(v)). Each whole warrant entitled the holder thereof to purchase one common share of Neovasc stock at the exercise price of $1.25 per share for a period of two years after the closing date of the offering.

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

16. EMPLOYEE BENEFITS EXPENSE

	For the years ended December 31, **2011**	2010
Wages and salaries	**$ 2,645,287**	$ 2,515,096
Canadian pension plan and employment insurance	**137,551**	124,865
Contribution to defined contribution pension plan	**64,676**	53,301
Share-based payments	**1,699,146**	580,522
	$ 4,546,660	$ 3,273,784

(Expressed in Canadian dollars)

17. SEGMENT INFORMATION

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

	For the years ended December 31, **2011**	2010
REVENUE		
United States	**$ 2,298,201**	$ 2,127,619
Europe	**1,958,583**	1,435,136
Israel	**809,002**	611,501
Canada	**189,975**	184,569
	$ 5,255,761	$ 4,358,825

Sales to the Company's four largest customers accounted for approximately 27%, 27%, 19% and 13% of the Company's sales for the year ended December 31, 2011. Comparatively, sales to the Company's three largest customers accounted for approximately 39%, 24% and 11% of the Company's sales for the year ended December 31, 2010.

18. DEPRECIATION AND SHARE-BASED PAYMENTS

	For the years ended December 31, **2011**	2010
COST OF GOODS SOLD		
Depreciation	**$ 14,374**	$ 18,069
Share-based payments	**27,005**	10,218
Other costs	**3,151,597**	2,604,701
TOTAL COST OF GOODS SOLD	**$ 3,192,976**	$ 2,632,988
EXPENSES		
Selling expenses		
Share-based payments	**$ 12,055**	$ 3,776
Other costs	**180,300**	186,967
	192,355	190,743
General and administrative expenses		
Depreciation	**57,730**	83,594
Share-based payments	**1,264,369**	476,676
Other costs	**1,806,622**	1,758,813
	3,128,721	2,319,083
Product development and clinical trials expenses		
Depreciation	**27,271**	21,455
Share-based payments	**395,717**	89,852
Other costs	**2,201,780**	1,730,836
	2,624,768	1,842,143
TOTAL EXPENSES	**$ 5,945,844**	$ 4,351,969
Depreciation per Statements of Cash Flows	**$ 99,375**	$ 123,118
Share-based payments per Statements of Cash Flows	**$ 1,699,146**	$ 580,522

(Expressed in Canadian dollars)

19. LOSS PER SHARE

Both the basic and diluted loss per share have been calculated using the loss attributable to shareholders of the Company as the numerator. The weighted average number of common shares outstanding used for basic loss per share for the year ended December 31, 2011 amounted to 42,613,770 shares (2010: 35,963,785 shares).

	For the years ended December 31, 2011	2010
Weighted average number of common shares - basic	**42,613,770**	35,963,785
Loss for the period	**(3,860,176)**	(2,701,304)
Basic loss per share	**$ (0.09)**	$ (0.08)

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

20. RELATED PARTY TRANSACTIONS

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

	For the years ended December 31, 2011	2010
Short-term employee benefits		
Employee salaries	**$ 607,500**	$ 600,000
Directors fees	**60,370**	70,063
Social security and medical care costs	**20,452**	19,555
	688,322	689,618
Post-employment benefits		
Contributions to defined contribution pension plan	**20,883**	15,000
	20,883	15,000
Share-based payments	**930,750**	445,294
	930,750	445,294
Total key management remuneration	**$ 1,639,955**	$ 1,149,912

21. SUBSEQUENT EVENTS

On February 3, 2012 the Company issued 1,228,600 options to its board of directors and management. The options have an exercise price of $1.45 and expire five years after the grant date. Of these options, 350,000 vested immediately and 878,600 will vest on December 31, 2012, contingent upon management achieving certain performance milestones established by the board of directors.

22. FIRST-TIME ADOPTION OF IFRS

The Company's date of transition to IFRS is January 1, 2010.

The accounting policies set out in Note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS consolidated statement of financial position at the date of transition.

In preparing its opening IFRS consolidated statement of financial position, the Company has applied IFRS 1 *First-time Adoption of International Financial Reporting Standards (as revised in 2008)*. The Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian General Accepted Accounting Policies ("Canadian GAAP"). An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

(a) First-time adoption exemption applied

Upon transition, IFRS 1 permits certain exemptions from full retrospective application. The Company has applied the mandatory exceptions and certain optional exemptions. The optional exemptions adopted by the Company include:

The Company has elected not to apply IFRS 3 retrospectively to business combinations that occurred before January 1, 2010.

The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

(Expressed in Canadian dollars)

22. FIRST-TIME ADOPTION OF IFRS (continued)

(b) Reconciliation of equity

		January 1, 2010				December 31, 2010			
	Notes	Previous Canadian GAAP	Effect of transition to IFRS	Other Adjustments	**IFRS**	Previous Canadian GAAP	Effect of transition to IFRS	Other Adjustments	**IFRS**
ASSETS									
Current assets									
Cash and cash equivalents	22(e)(ii)	$ 111,368	-	186,897	**$ 298,265**	$ 1,275,747	-	213,280	**$ 1,489,027**
Accounts receivable		442,540	-	-	**442,540**	661,999	-	-	**661,999**
Inventory		404,309	-	-	**404,309**	469,744	-	-	**469,744**
Prepaid expenses and other assets		15,771	-	-	**15,771**	33,729	-	-	**33,729**
Total current assets		973,988	-	186,897	**1,160,885**	2,441,219	-	213,280	**2,654,499**
Non-current assets									
Property, plant and equipment		1,249,326	-	-	**1,249,326**	1,224,481	-	-	**1,224,481**
Restricted cash and cash equivalents		50,000	-	-	**50,000**	50,000	-	-	**50,000**
Total non-current assets		1,299,326	-	-	**1,299,326**	1,274,481	-	-	**1,274,481**
Total Assets		$ 2,273,314	-	186,897	**$ 2,460,211**	$ 3,715,700	-	213,280	**$ 3,928,980**
LIABILITIES AND EQUITY									
Liabilities									
Current liabilities									
Bank overdraft	22(e)(ii)	$ -	-	186,897	**$ 186,897**	$ -	-	213,280	**$ 213,280**
Accounts payable and accrued liabilities		962,512	-	-	**962,512**	647,877	-	-	**647,877**
Current portion of long-term debt		39,978	-	-	**39,978**	40,630	-	-	**40,630**
Total current liabilities		1,002,490	-	186,897	**1,189,387**	688,507	-	213,280	**901,787**
Non-current liabilities									
Long-term debt		357,097	-	-	**357,097**	318,872	-	-	**318,872**
Total non-current liabilities		357,097	-	-	**357,097**	318,872	-	-	**318,872**
Total Liabilities		1,359,587	-	186,897	**1,546,484**	1,007,379	-	213,280	**1,220,659**
Equity									
Share capital		60,648,625	-	-	**60,648,625**	64,841,468	-	-	**64,841,468**
Contributed surplus	22(e)(iii)	4,631,349	64,658	64,658	**4,696,007**	4,863,985	135,077	135,077	**4,999,062**
Deficit	22(e)(iii)	(64,366,247)	(64,658)	(64,658)	**(64,430,905)**	(66,997,132)	(135,077)	(135,077)	**(67,132,209)**
Total equity		913,727	-	-	**913,727**	2,708,321	-	-	**2,708,321**
Total liabilities and equity		$ 2,273,314	-	186,897	**$ 2,460,211**	$ 3,715,700	-	213,280	**$ 3,928,980**

(Expressed in Canadian dollars)

22. FIRST-TIME ADOPTION OF IFRS (continued)

(c) Reconciliation of comprehensive loss for the year-ended December 31, 2010

Year ended December 31, 2010	Notes	Previous Canadian GAAP	Effect of transition to IFRS	**IFRS**
REVENUE				
Product sales		$ 2,149,691	-	$ 2,149,691
Contract manufacturing		850,613	-	850,613
Consulting services		1,358,521	-	1,358,521
		4,358,825	-	4,358,825
COST OF GOODS SOLD	22(e)(iv)	2,614,919	18,069	2,632,988
GROSS PROFIT		1,743,906	(18,069)	1,725,837
EXPENSES				
Selling expenses		190,743	-	190,743
General and administrative expenses	22(e)(iii&iv)	2,165,070	154,013	2,319,083
Product development and clinical trials expenses	22(e)(iv)	1,820,688	21,455	1,842,143
Depreciation	22(e)(iv)	123,118	(123,118)	-
		4,299,619	52,350	4,351,969
OPERATING LOSS		(2,555,713)	(70,419)	(2,626,132)
OTHER INCOME/(EXPENSE)				
Interest income		466	-	466
Interest expense		(11,567)	-	(11,567)
Loss on disposal of property and equipment		(9,912)	-	(9,912)
Loss on foreign exchange		(54,159)	-	(54,159)
		(75,172)	-	(75,172)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		$ (2,630,885)	(70,419)	$ (2,701,304)
LOSS PER SHARE				
Basic and diluted loss per share	22(e) (v)	$ (0.07)	-	$ (0.08)

(d) Material adjustments to the statement of cash flows for 2010

There are no other material differences between the statement of cash flows presented under IFRSs and the statement of cash flows previously presented under Canadian GAAP.

(e) Notes to the reconciliations

(i) Presentation differences

Certain presentation differences between Canadian GAAP and IFRS have no impact on comprehensive loss or total equity. Please see Note 22(e)(iv).

Amounts previously reported under “Cash and cash equivalents” have been disaggregated into “Cash and cash equivalents” and “Bank overdraft” (see Note 22(e)(ii)).

Under the “function of expense” presentation adopted for the Company’s Statement of Comprehensive Loss under IFRS, depreciation expense is not presented as a separate line item, but is allocated to expense line items by function (see Note 22(e)(iv)).

22. FIRST-TIME ADOPTION OF IFRS (continued)

(e) Notes to the reconciliations (continued)

(ii) Bank overdraft

Amounts previously reported under "Cash and cash equivalents" have been disaggregated into "Cash" and "Bank overdraft". Consequently, amounts reported as "Cash and cash equivalents" increased by $186,897 as at January 1, 2010, and by $213,280 as at December 31, 2010 and amounts reported as "Bank overdraft" increased by $186,897 as at January 1, 2010, and by $213,280 as at December 31, 2010.

(iii) Share-based payments

Under Canadian GAAP, the fair value of share-based awards with graded vesting are calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting period, with actual forfeitures recognized as they occur. Under IFRS, each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches with forfeitures estimated at the date of grant, and updated at each subsequent reporting date.

As a result of applying the IFRS 2 to awards not yet vested at the date of transition to IFRS, contributed surplus was increased by $64,658 as at January 1, 2010 (December 31, 2010: increased by $135,077), and deficit increased by $64,658 as at January 1, 2010 (December 31, 2010: increased by $135,077); share-based payment expenses in "General and administrative expenses" increased by $70,419 for the year-ended December 31, 2010.

(iv) Depreciation

Under IFRS, the Company has chosen to present the expenses recognized in profit or loss by their function. As a result, depreciation expense in Canadian GAAP is allocated to as an element of "Cost of goods sold", "General and administrative expenses" and "Product development and clinical trials expenses". As a result, amounts previously reported for these captions increased by $18,069, $83,594, and $21,455 respectively for the year-ended December 31, 2010.

(v) Basic and diluted loss per share

Basic and diluted loss per share in 2010 was $0.08 under IFRS compared to $0.07 under Canadian GAAP, due to the adjustment of $70,419 under IFRS. See note 19 for further information on loss per share.

23. AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2011 (including comparatives) were approved by the board of directors on April 24, 2012.

(signed) ***Alexei Marko***

Alexei Marko, Director

(signed) ***Steven Rubin***

Steven Rubin, Director