Neovasc Inc.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
December 31, 2010 AND 2009

(Expressed in Canadian Dollars)

CONTENTS

Grant Thornton

Independent auditor's report

Grant Thornton LLP
Suite 1600, Grant Thornton Place
333 Seymour Street
Vancouver, BC
V6B 0A4

T (604) 687-2711
F (604) 685-6569
www.GrantThornton.ca

To the shareholders of Neovasc Inc.

We have audited the accompanying consolidated financial statements of Neovasc Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, 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 audits 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 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, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that the Company has incurred a net loss of $2,630,885 for the year ended December 31, 2010 and total losses of $66,997,132 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 20, 2011

Chartered accountants

NEOVASC INC.
Consolidated Balance Sheets
As at December 31

		2010		2009
ASSETS				
CURRENT				
Cash and cash equivalents	**$**	**1,275,747**	$	111,368
Accounts receivable		**661,999**		442,540
Inventory (Note 6)		**469,744**		404,309
Prepaid expenses and other assets		**33,729**		15,771
		2,441,219		973,988
RESTRICTED CASH AND CASH EQUIVALENTS (Note 8)		**50,000**		50,000
PROPERTY AND EQUIPMENT (Note 7)		**1,224,481**		1,249,326
	$	**3,715,700**	$	2,273,314
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities	**$**	**647,877**	$	962,512
Current portion of long-term debt		**40,630**		39,978
		688,507		1,002,490
LONG-TERM DEBT (Note 8)		**318,872**		357,097
		1,007,379		1,359,587
SHAREHOLDERS' EQUITY				
Share capital (Note 10)		**64,841,468**		60,648,625
Contributed surplus (Note 10)		**4,863,985**		4,631,349
Deficit		**(66,997,132)**		(64,366,247)
		2,708,321		913,727
	$	**3,715,700**	$	2,273,314

GOING CONCERN (Note 2)
SUBSEQUENT EVENTS (Note 13)

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.

Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the years ended December 31

		2010		2009
SALES				
Product sales	**$**	**2,149,691**	$	1,819,722
Contract manufacturing		**850,613**		302,011
Consulting services		**1,358,521**		878,314
		4,358,825		3,000,047
COST OF GOODS SOLD		**2,614,919**		1,404,507
GROSS PROFIT		**1,743,906**		1,595,540
EXPENSES				
Selling		**190,743**		666,323
General and administration		**2,165,070**		2,494,661
Product development and clinical trials		**1,820,688**		2,687,932
Amortization		**123,118**		201,599
		4,299,619		6,050,515
LOSS BEFORE OTHER INCOME (EXPENSES)		**(2,555,713)**		(4,454,975)
OTHER INCOME (EXPENSES)				
Interest income		**466**		12,214
Interest on long-term debt		**(11,567)**		(10,245)
Loss on disposal of property and equipment		**(9,912)**		-
Loss on foreign exchange		**(54,159)**		(23,278)
		(75,172)		(21,309)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		**(2,630,885)**		(4,476,284)
DEFICIT, BEGINNING OF YEAR		**(64,366,247)**		(59,889,963)
DEFICIT, END OF YEAR	**$**	**(66,997,132)**	$	(64,366,247)
BASIC AND DILUTED LOSS PER SHARE	**$**	**(0.07)**	$	(0.18)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		**35,963,785**		24,978,476

See accompanying Notes to the Audited Consolidated Financial Statements

NEOVASC INC.

Consolidated Statements of Cash Flows

For the years ended December 31

		2010		2009
OPERATING ACTIVITIES				
Net loss for the period	$	**(2,630,885)**	$	(4,476,284)
Items not affecting cash:				
Amortization		**123,118**		201,599
Stock-based compensation		**510,102**		253,797
Loss on disposal of property and equipment		**9,912**		-
		(1,987,753)		(4,020,888)
Change in non-cash operating assets and liabilities				
Accounts receivable		**(219,459)**		27,660
Inventory		**(65,435)**		(62,745)
Prepaid expenses and other assets		**(17,958)**		36,585
Retirement assets		**-**		8,320
Accounts payable and accrued liabilities		**(314,635)**		(255,893)
Retirement liabilities		**-**		(8,964)
		(2,605,240)		(4,275,925)
INVESTING ACTIVITIES				
Proceeds from disposal of property and equipment		**5,790**		-
Purchase of property and equipment		**(113,975)**		(51,281)
		(108,185)		(51,281)
FINANCING ACTIVITIES				
Repayment of long-term debt		**(37,573)**		(42,172)
Proceeds from share issue, net of costs of $25,607		**1,511,141**		1,979,686
Proceeds from exercise of common share purchase warrants		**2,398,349**		-
Proceeds from exercise of stock options		**5,887**		2,621
		3,877,804		1,940,135
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,164,379**		(2,387,071)
CASH AND CASH EQUIVALENTS,				
BEGINNING OF YEAR		**111,368**		2,498,439
END OF YEAR	$	**1,275,747**	$	111,368
REPRESENTED BY:				
Cash		**1,273,555**		109,642
Cash equivalents		**2,192**		1,726
Cash and cash equivalents	$	**1,275,747**	$	111,368
SUPPLEMENTAL CASH FLOW INFORMATION				
Interest paid	$	**11,567**	$	10,245

See accompanying Notes to the Audited Consolidated Financial Statements

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 develops, manufactures and distributes medical devices.

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

2. 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 $2,630,885 for the year ended December 31, 2010 (2009: $4,476,284) and has a deficit of $66,997,132 as at December 31, 2010 (2009: $64,366,247). The Company's ability to continue as a going concern is dependent on the profitable commercialization of its products or obtaining additional debt or equity financing to fund ongoing operations until profitability is achieved.

The Company plans to manage its cash flow 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 generate additional cash flows, 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 balance sheet classifications.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

(a) Basis of consolidation

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. The recoverable amounts of accounts receivable, inventories, property and equipment, future income tax assets and the fair value of share-based payments are the significant items subject to estimates in these consolidated financial statements.

(c) Foreign currency translation

The functional currency of the Company and each of its subsidiaries is the Canadian dollar. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the average rate of exchange for the month in which such transactions occur.

(d) Cash and cash equivalents

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

Included in cash and cash equivalents, the Company has an operating line of credit secured by its accounts receivable with a variable annual interest rate at prime. The maximum line of credit is the lesser of $200,000 or 75% of North American trade receivables under 90 days old. At December 31, 2010 the Company had drawn $138,512 (2009: $165,331) on the line of credit.

In addition to cash and cash equivalents, the Company has restricted cash and cash equivalents of $50,000 representing security for the Company's long-term debt (Note 8).

(e) Inventory

Inventory is valued at the lower of cost and net realizable value for finished goods and work in progress and at the lower of cost and net realizable value for raw materials. Cost is determined on a first-in, first-out basis. Cost of finished goods and work in progress includes direct material and labour 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.

(f) Property and equipment

Property and equipment are recorded at cost less accumulated amortization and are amortized over their estimated useful lives using the following rates and method:

Building	4% declining balance
Production equipment	30% declining balance
Computer hardware	30% declining balance
Computer software	100% declining balance
Office equipment, furniture and fixtures	20% declining balance

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Revenue recognition

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

(i) Product sales

Revenue from product sales, including shipments to distributors, is recognized when the product is shipped from the Company's facilities to the customer when the price is fixed or determinable and collection is reasonably assured.

(ii) Contract manufacturing

Revenue from manufacturing contracts is recognized under the terms of the shipment to customers, when the price is fixed or determinable and collection is reasonably assured.

(iii) Consulting Services

Revenue from research and development and design contracts is recognized under the terms of the related contract as services are rendered and collection is reasonably assured.

Cash received in advance of product sales or in advance of the provision of services is recorded as deferred revenue.

(h) Product development and clinical trials

Ongoing product development and clinical trials are expensed as incurred. Costs associated with product development and clinical trials are reduced by any scientific research and experimental development tax credits to which the Company is entitled.

(i) 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.

(j) Share capital

From time to time, the Company issues units consisting of common shares and warrants. The Company records the issuance as a whole in share capital and uses the residual method to attribute value to each component of the unit. The Company attributes the fair value to the share, based on the market price on the date of the issue and the residual difference, if any, between the unit price and the fair value of the share is attributed to the warrant.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Stock-based compensation

The Company has a stock option plan as disclosed in Note 10. The Company follows the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870 Stock-based Compensation and Other Stock-based Payments to account for grants under this plan. As recommended by Section 3870, the Company has adopted the fair value method for stock-based compensation granted to employees and non-employees and all direct awards of stock.

The fair value of stock options is determined by 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 direct awards of stock is determined by the quoted market price of the Company's stock.

(l) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes assets and liabilities reflect the tax effect of differences between the carrying amount of balance sheet items and their corresponding tax values and unutilized losses carried forward, using substantively enacted tax rates and laws that will be in effect when differences are expected to reverse. Future income tax assets are only recognized to the extent it is more likely than not that the related benefit will be realized.

(m) 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. Diluted loss per share is the same as basic loss per share because the effect of outstanding options and warrants is anti-dilutive.

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 shareholders' 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, 2010	December 31, 2009
Shareholders' equity	**$ 2,708,321**	$ 913,727
Long-term debt	**359,502**	397,075
	$ 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 stockholders' equity. As at December 31, 2010, the Company was in compliance with all financial covenants associated with its long-term debt.

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 fair values of accounts receivable, accounts payable and accrued liabilities approximate their carrying values as they are short-term in nature. The estimated fair value of long-term debt approximates its carrying value based on the discounted cash flow at market rates. The Company had neither available-for-sale nor held-to-maturity instruments as at December 31, 2010 and December 31, 2009. Loans and receivables and other financial liabilities have been measured 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. The GIC is held as part of the security on the Company's long-term debt described in Note 8. The comparable fair value of unadjusted quoted prices in active market for a similar GIC is a reasonable approximation to the carrying value.

(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% (2009: 56%) and 33% (2009: 40%), respectively, of the revenue for the year ended December 31, 2010. A 5% change in the foreign exchange rate for United States and European Union currency will result in a change in revenues of approximately $144,000 and $72,000 (2009: $85,000 and $60,000), respectively. A 5% change in the foreign exchange rate for the United States and European Union currency will result in a change in foreign currency denominated accounts receivable of approximately $20,000 and $8,700 (2009: $13,900 and $3,500), respectively and a change in foreign currency denominated accounts payable of approximately $2,900 and $nil (2009: $3,000 and $180), respectively.

5. FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk

The monthly repayments of long-term debt (Note 8) include interest payments with interest calculated at prime rate plus 0.500% per annum. Management has considered the risks to cash flows from this variable interest portion and considers it unlikely that the interest rates will increase sufficiently to exceed the fixed monthly payment due on the loan. A 1% change in the interest rate on the long-term debt outstanding at December 31, 2010 will change the interest rate expense for the year by approximately $3,600 (2009: $4,000) 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 December 31, 2010 the Company had working capital of $1,752,712 as compared to negative working capital 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. 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 amount of the trade accounts receivable at year end (December 31, 2010: $637,014, 2009: $406,247). As at December 31, 2010 and 2009, the Company's trade accounts receivable were aged as follows:

	December 31, 2010	December 31, 2009
Trade accounts receivable		
Up to 30 days since invoice date	**$ 523,890**	$ 400,559
Between 31 and 60 days since invoice date	**83,577**	1,146
Between 61 and 90 days since invoice date	**11,071**	1,193
Between 91 and 120 days since invoice date	**9,819**	3,349
Greater than 120 days since invoice date	**9,438**	2,664
Less: Provision for doubtful accounts	**(781)**	(2,664)
	637,014	406,247
Other accounts receivable	**24,985**	36,293
	$ 661,999	$ 442,540

As at December 31, 2010, the Company had $58,128 (2009: $8,352) of trade accounts receivable that were overdue, according to the customers' credit terms. Of these the Company has provided for $781 of trade accounts receivable which management believes may be impaired (2009: $2,664). During the year the Company wrote down $20,689 of accounts receivable owed by one customer (2009: $nil).

6. INVENTORY

		December 31, 2010		December 31, 2009
Materials	**$**	**214,499**	$	152,729
Work in progress		**184,922**		74,318
Finished goods		**70,323**		177,262
	$	**469,744**	$	404,309

During the year $2,122,827 (2009: $1,213,103) of inventory was expensed in cost of goods sold and $91,088 (2009: $40,722) of inventory was used in internal development projects and expensed in product development and clinical trial costs.

7. PROPERTY AND EQUIPMENT

		December 31, 2010				
		Cost		Accumulated Depreciation		**Net Book Value**
Land	$	207,347		-	**$**	**207,347**
Building		1,081,177		224,832		**856,345**
Production equipment		528,561		440,725		**87,836**
Computer hardware		170,279		136,740		**33,539**
Computer software		216,739		213,635		**3,104**
Office equipment, furniture and fixtures		162,023		125,713		**36,310**
	$	2,366,126	$	1,141,645	**$**	**1,224,481**

		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
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
	$	2,275,093	$	1,025,767	$	1,249,326

8. LONG-TERM DEBT

	December 31, 2010	December 31, 2009
Bank instalment loan	**$ 359,502**	$ 397,075
Less current portion	**(40,630)**	(39,978)
	$ 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 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 rate plus 0.500% per annum.

The approximate amount of principal repayments in the next five years and thereafter are as follows:

2011	$ 40,630
2012	41,972
2013	42,991
2014	44,034
2015	45,103
Thereafter	144,772
	$ 359,502

9. INCOME TAXES

Reported income tax expense differs from the amounts computed by applying current income tax rates to the loss before income taxes due to the following:

	For the years ended December 31,			
		2010		2009
Basic statutory rate		**26.9%**		29.0%
Expected income tax recovery	**$**	**(703,276)**	$	(1,284,556)
Stock based compensation		**145,379**		61,227
Effect of other non-deductible expenses		**14,080**		(73,915)
Effect of rate change		**(6,484)**		452,520
Other		**62,766**		40,866
Change in valuation of allowance		**487,535**		803,858
Income tax expense		**-**		-

Future income taxes result principally from temporary differences in the recognition of certain revenue and expense items for financial and income tax reporting purposes. Significant components of the Company's future tax assets are as follows:

	For the years ended December 31,			
		2010		2009
Future income tax assets				
Capital assets	**$**	**313,372**	$	280,115
Non-capital loss carry forwards				
Share issue costs		**53,696**		122,977
Loss carry forwards		**10,941,124**		10,754,191
Research and development expenditures		**1,229,261**		1,115,688
Valuation allowance for future income tax assets		**(12,537,453)**		(12,272,971)
Future income tax assets		**-**		-

As at December 31, 2010, the Company has approximately $4,900,000 of research and development expenditures that may be available for deduction in future tax years, with no expiry date. The Company has loss carry forward balances for income tax purposes of approximately $44,000,000 that may be available to offset future taxable income, if any. The losses expire at various times through to the year 2030. The Company also has investment tax credits of approximately $2,200,000 that may be available to offset future income taxes, if any. The investment tax credits expire at various times through to the year 2030.

The future tax benefit of these expenditures, losses and tax credits is ultimately subject to final determination by taxation authorities. In 2010, the Company has not recognized any future income tax assets in respect of the amounts noted.

10. SHARE CAPITAL

(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	Common Shares Amount	Contributed 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)	-	(25,607)	-
Issued for cash on exercise of warrants (iii)	4,635,114	1,390,534	-
Issued for cash on exercise of warrants (iv)	2,519,538	1,007,815	-
Stock-based compensation	-	-	510,102
Issued for cash on exercise of options	128,331	283,353	(277,466)
Balance, December 31, 2010	**40,364,334**	**64,841,468**	**4,863,985**

(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 warrants. Each whole common share purchase warrant entitled 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. Each whole common share purchase 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.

(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 10 (b) (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.

(iv) 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 10 (b) (ii)). Proceeds from the exercise of the 2,519,538 warrants amounted to $1,007,815. The remaining 326,293 warrants were exercised on January 17, 2011 and February 15, 2011 (see notes 13(a) and (c)).

10. 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	2,007,965	$ 0.38	4.22
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**
Options exercisable, December 31, 2010	**2,882,202**	**$ 0.40**	**4.19**
Weighted average grant date fair value of stock options awarded during period	$ 0.34		

During the year ended December 31, 2010, the Company recorded $510,102 (2009 – $253,797) 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**

10. 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**
Issured pursuant to a private placement (ii)	2,845,831
Exercised (iii & iv)	(7,154,652)
Expired (iii)	(126,788)
Balance, December 31, 2010	**326,293**

(i) Pursuant to the non-brokered private placement on April 23, 2009 (see note 10 (b) (i)), the Company issued 4,761,902 whole warrants. Each warrant entitled 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 place on February 19, 2010 (see note 10 (b) (ii), the Company issued 2,845,831 whole warrants. Each 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.

(iii) On April 23, 2010, 4,635,114 warrants issued as part of the Company's April 2009 financing (see note 10(b)(i)) were exercised. 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.

(iv) On November 8, 2010, 2,519,538 warrants issued as part of the Company's February 2010 financing (see note 10(b)(ii)) were exercised. Proceeds from the exercise of the 2,519,538 warrants amounted to $1,007,815. The remaining 326,293 warrants were exercised on January 17, 2011 and February 15, 2011 (see notes 13(a) and (c)).

The following table summarizes the warrants outstanding and exercisable at December 31, 2010:

Number Outstanding	**Average Remaining Contractual Life**	**Weighted Average Exercise Price**
326,293	0.10 yrs	0.40

11. RELATED PARTY TRANSACTIONS

Related party transactions are entered into in the normal course of operations and are recorded at exchange amounts established and agreed between the related parties. During the year ended December 31, 2009, the former chief executive officer ("CEO") of the Company was paid by the Company for services in the amount of $11,180. The services of the former CEO were provided to the Company by a corporation ("the 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 with respect to the Company from the former CEO to his successor and these services ceased in January 2009. The former CEO continues to serve as Chairman of the Company. There were no accounts payable or receivable due from or due to the Corporation as at December 31, 2010 or 2009.

12. SEGMENT INFORMATION

The Company has one operating segment, being 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. The Company earns revenue from sales to customers in the following geographic locations:

	For the years ended December 31,	
	2010	2009
SALES		
United States	**$ 2,127,619**	$ 1,173,973
Europe	**1,435,136**	1,158,898
Israel	**611,501**	548,951
Canada	**184,569**	118,225
	4,358,825	3,000,047

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, and 29%, 25% and 15% of the Company's sales for the year ended December 31, 2009.

13. SUBSEQUENT EVENTS

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

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