



Neovasc Inc.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2011 AND 2010

(Expressed in Canadian dollars)

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NEOVASC INC.

Notice of No Auditor Review of Interim Consolidated Financial Statements

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

The accompanying Unaudited Interim Consolidated Financial Statements of the Company have been prepared by management and approved by the audit committee and board of directors of the Company.

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

NEOVASC INC.

Interim Consolidated Statements of Financial Position (Unaudited)

(Expressed in Canadian dollars)

	Notes	September 30, 2011	December 31, 2010	January 1, 2010
ASSETS				
Current assets				
Cash and cash equivalents	6	\$ 3,976,672	\$ 1,489,027	\$ 298,265
Accounts receivable	7	922,800	661,999	442,540
Inventory	8	496,669	469,744	404,309
Prepaid and other assets		54,777	33,729	15,771
Total current assets		5,450,918	2,654,499	1,160,885
Non-current assets				
Property, plant and equipment	9	1,298,151	1,224,481	1,249,326
Restricted cash and cash equivalents	12	41,556	50,000	50,000
Total non-current assets		1,339,707	1,274,481	1,299,326
Total assets		\$ 6,790,625	\$ 3,928,980	\$ 2,460,211
LIABILITIES AND EQUITY				
Liabilities				
Current liabilities				
Bank overdraft	10	\$ -	\$ 213,280	\$ 186,897
Accounts payable and accrued liabilities	11	540,679	647,877	962,512
Current portion of long-term debt	12	41,362	40,630	39,978
Total current liabilities		582,041	901,787	1,189,387
Non-current liabilities				
Long-term debt	12	290,269	318,872	357,097
Total non-current liabilities		290,269	318,872	357,097
Total liabilities		872,310	1,220,659	1,546,484
Equity				
Share capital	13	70,179,697	64,841,468	60,648,625
Contributed surplus	13	5,614,601	4,862,090	4,630,337
Deficit		(69,875,983)	(66,995,237)	(64,365,235)
Total equity		5,918,315	2,708,321	913,727
Total liabilities and equity		\$ 6,790,625	\$ 3,928,980	\$ 2,460,211

GOING CONCERN (see Note 2(b))

FIRST-TIME ADOPTION OF IFRS (see Note 19(b))

NEOVASC INC.

Interim Consolidated Statements of Comprehensive Loss (Unaudited)

For the three and nine months ended September 30,
(Expressed in Canadian dollars)

		For the three months ended September 30,		For the nine months ended September 30,	
	Notes	2011	2010	2011	2010
REVENUE					
Product sales		\$ 391,197	\$ 539,478	\$ 1,120,290	\$ 1,492,273
Contract manufacturing		528,467	99,878	1,053,678	531,780
Consulting services		506,383	375,144	1,301,404	1,016,208
	17	1,426,047	1,014,500	3,475,372	3,040,261
COST OF GOODS SOLD					
		792,684	568,536	1,869,417	1,772,935
GROSS PROFIT					
		633,363	445,964	1,605,955	1,267,326
EXPENSES					
Selling expenses	15	48,154	40,763	145,242	135,012
General and administrative expenses	15	774,829	482,775	2,337,821	1,704,081
Product development and clinical trials expenses	15	771,985	330,393	2,035,908	1,227,254
		1,594,968	853,931	4,518,971	3,066,347
OPERATING LOSS					
		(961,605)	(407,967)	(2,913,016)	(1,799,021)
OTHER INCOME/(EXPENSE)					
Interest income		8	119	240	348
Interest expense		(2,980)	(2,223)	(8,985)	(7,552)
Gain/(loss) on foreign exchange		73,070	3,127	41,015	(6,689)
		70,098	1,023	32,270	(13,893)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD					
		\$ (891,507)	\$ (406,944)	\$ (2,880,746)	\$ (1,812,914)
LOSS PER SHARE					
Basic and diluted loss per share	16	\$ (0.02)	\$ (0.01)	\$ (0.07)	\$ (0.05)

FIRST-TIME ADOPTION OF IFRS (see Note 19(c))

NEOVASC INC.

Interim Consolidated Statements of Changes in Equity (Unaudited)

(Expressed in Canadian dollars)

	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at January 1, 2010	\$ 60,648,625	\$ 4,630,337	\$ (64,365,235)	\$ 913,727
Issue of share capital pursuant to a private placement	2,905,267	-	-	2,905,267
Issue of share capital on exercise of options	36,618	(30,866)	-	5,752
Share-based payments	-	395,971	-	395,971
Transaction with owners during the period	2,941,885	365,105	-	3,306,990
Loss and comprehensive loss for the period	-	-	(1,812,914)	(1,812,914)
Balance at September 30, 2010	\$ 63,590,510	\$ 4,995,442	\$ (66,178,149)	\$ 2,407,803
Balance at January 1, 2011	\$ 64,841,648	\$ 4,862,090	\$ (66,995,237)	\$ 2,708,321
Issue of share capital pursuant to a private placement	4,682,393	-	-	4,682,393
Issue of share capital on exercise of warrants	130,517	-	-	130,517
Issue of share capital on exercise of options	525,319	(494,585)	-	30,734
Share-based payments	-	1,247,096	-	1,247,096
Transaction with owners during the period	5,338,229	752,511	-	6,090,740
Loss and comprehensive loss for the period	-	-	(2,880,746)	(2,880,746)
Balance at September 30, 2011	\$ 70,179,697	\$ 5,614,601	\$ (69,875,983)	\$ 5,918,315

See Accompanying Notes to Consolidated Financial Statements

NEOVASC INC.

Interim Consolidated Statements of Cash Flow (Unaudited)

For the three and nine months ended September 30,
(Expressed in Canadian dollars)

	Notes	For the three months ended		For the nine months ended	
		September 30, 2011	2010	September 30, 2011	2010
OPERATING ACTIVITIES					
Net loss for the period		\$ (891,507)	\$ (406,944)	\$ (2,880,746)	\$ (1,812,914)
Adjustments for:					
Depreciation	15	24,577	30,863	68,804	89,015
Share-based payments	15	448,931	88,975	1,247,096	395,971
Loss on disposal of equipment		-	-	-	9,912
Interest income		(8)	(119)	(240)	(348)
Interest expense		2,980	2,223	8,985	7,552
		(415,027)	(285,002)	(1,556,101)	(1,310,812)
Net change in non-cash working capital items:					
Accounts receivable		(538,361)	(83,874)	(260,801)	(45,841)
Inventory		240,344	(50,912)	(26,925)	(237,390)
Prepaid expenses and other assets		(8,434)	(5,378)	(21,048)	(41,872)
Accounts payable and accrued liabilities		(325,111)	(59,396)	(107,198)	(406,854)
		(631,562)	(199,560)	(415,972)	(731,957)
Interest paid and received:					
Interest income		8	119	240	348
Interest expense		(2,980)	(2,223)	(8,985)	(7,552)
		(2,972)	(2,104)	(8,745)	(7,204)
		(1,049,561)	(486,666)	(1,980,818)	(2,049,973)
INVESTING ACTIVITIES					
Proceeds from disposal of equipment		-	-	-	5,790
Purchase of property and equipment		(35,068)	(74,122)	(142,474)	(107,480)
		(35,068)	(74,122)	(142,474)	(101,690)
FINANCING ACTIVITIES					
Decrease in bank overdraft		(48,649)	(63,843)	(213,280)	(52,279)
Decrease/(increase) in restricted cash & cash equivalents		(2,984)	-	8,444	-
Repayment of long-term debt		(9,306)	(10,062)	(27,871)	(29,303)
Proceeds from issue of shares, net of costs of \$38,107		4,682,393	-	4,682,393	1,514,733
Proceeds from exercise of warrants		-	-	130,517	1,390,534
Proceeds from exercise of options		4,081	-	30,734	5,752
		4,625,535	(73,905)	4,610,937	2,829,437
NET CHANGE IN CASH AND CASH EQUIVALENTS		3,540,906	(634,693)	2,487,645	677,774
CASH AND CASH EQUIVALENTS					
Beginning of period		435,766	1,610,732	1,489,027	298,265
End of period		\$ 3,976,672	\$ 976,039	\$ 3,976,672	\$ 976,039
Represented by:					
Cash		3,976,672	973,965	3,976,672	973,965
Cashable guaranteed investment certificate		-	2,074	-	2,074
		\$ 3,976,672	\$ 976,039	\$ 3,976,672	\$ 976,039

See Accompanying Notes to the Consolidated Financial Statements

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2011 and 2010

(Expressed in Canadian dollars)

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 Inc. is the parent company. The Consolidated Financial Statements of the Company as at September 30, 2011, December 31, 2010 and January 1, 2010 and for the three and nine months ended September 30, 2011 and 2010 comprise the Company and its subsidiaries. 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 Inc. 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 interim consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting using the accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") that the Company expects to be applicable for its Annual Consolidated Financial Statements for the year-ending December 31, 2011. These Interim Consolidated Financial Statements do not include all disclosure required by IFRS for Annual Consolidated Financial Statements and accordingly should be read in conjunction with the Company's Audited Annual Consolidated Financial Statements for the year-ended December 31, 2010 presented under Canadian Generally Accepted Accounting Principles ("Canadian GAAP") and in conjunction with the IFRS transition disclosure in Note 19 to these Interim Consolidated Financial Statements.

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 19.

The results for the three and nine months ended September 30, 2011 may not be indicative of the results that may be expected for the full-year or any other period.

(b) Going concern

These Interim Consolidated Financial Statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has incurred operating losses of \$891,507 and \$2,880,746 for the three and nine months ended September 30, 2011 (2010: \$406,944 and \$1,812,914) and has a deficit of \$69,875,983 as at September 30, 2011 compared to a deficit of \$66,995,237 as at December 31, 2010 and a deficit of \$64,365,235 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 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.

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2011 and 2010

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

(b) Going concern (continued)

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 classifications in the Consolidated Statement of Financial Position.

(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(d), 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 Financial Statements, or (iii) reclassifies items in the Financial Statements.

(f) Use of estimates

The preparation of 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 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 for depreciation and expected life, volatility and forfeiture rates for share-based payments.

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2011 and 2010

(Expressed in Canadian dollars)

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 Statement of Financial Position at January 1, 2010 for the purposes of the transition to IFRS.

(a) Foreign currency translation

The functional currency of Neovasc Inc. 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 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 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 ninety 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 12).

The cash equivalents are deposited in a guaranteed investment certificate ("GIC") returning a fixed rate of interest of 0.90%. The GIC had an initial term of one-year and matured on July 7, 2011 and was transferred into cash on that date.

(d) 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.

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2011 and 2010

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) 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.

(f) Impairment of assets

Financial assets (including accounts receivable)

The Company reviews 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 will default. Accounts receivables 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 (group of units) on a pro rata basis.

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2011 and 2010

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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 non-monetary benefits, such as 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.

(h) 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 on completion of work performed under the terms of the related consulting services contract.

(i) 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 and loss. Research and development costs are reduced by any scientific research and experimental development tax credits to which the Company is entitled.

(j) Government assistance

Government assistance, consisting of grants and 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.

(k) Interest income and interest expense

Interest income comprises interest income on the GIC. 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.

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2011 and 2010

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) 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 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.

(m) 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. This has resulted in nil value being attributed to warrants issued by the Company to date. 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 not completed are charged to profit and loss.

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

Deficit includes all current and prior period losses.

(n) 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 13(c)).

The fair value of the stock options 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.

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2011 and 2010

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) 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.

(p) 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).

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:

	September 30, 2011	December 31, 2010	January 1, 2010
Equity	\$ 5,918,315	\$ 2,708,321	\$ 913,727
Long-term debt	331,631	359,502	397,075
	\$ 6,249,946	\$ 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 September 30, 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 three and nine months ended September 30, 2011 and for the three and nine months ended September 30, 2010 there were no changes in the Company's Capital Management Policy.

NEOVASC INC.

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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 57% and 39% of the revenue for the nine months ended September 30, 2011 (nine months ended September 30, 2010: 64% and 32% respectively). A 5% change in the foreign exchange rate for United States and European Union currency will result in a change in revenues of approximately \$98,000 and \$68,000 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 \$23,000 and \$20,000 respectively and a change in foreign currency denominated accounts payable of approximately \$6,000 and \$430 respectively.

(b) Interest rate risk

The Company makes fixed repayments on its long-term debt (see Note 12). 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 quarter by approximately \$900 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. The Company has minimal risk associated with the maturity of its bank loan.

As at September 30, 2011 the Company had working capital of \$4,868,877 as compared to a working capital of \$1,752,712 at December 31, 2010 and a 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 September 30, 2011: \$878,862 (December 31, 2010: \$637,014 and January 1, 2010: \$406,247).

As at September 30, 2011, the Company had \$88,460 (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 \$3,947 of trade accounts receivable which management believes may be impaired (December 31, 2010: \$781 and January 1, 2010: \$2,664). During the three and nine months ended September 30, 2011 and for the three and nine months ended September 30, 2010 the Company wrote down \$nil of accounts receivable owed by customers.

NEOVASC INC.

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6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes the following components:

	September 30, 2011	December 31, 2010	January 1, 2010
Cash at bank and in hand:			
United States dollars	\$ 172,617	\$ 917,981	\$ 67,597
European euros	142,497	373,030	151,111
Canadian dollars	3,661,558	195,825	77,831
Short term deposits held as GICs	-	2,191	1,726
	<u>\$ 3,976,672</u>	<u>\$ 1,489,027</u>	<u>\$ 298,265</u>

In addition, as at September 30, 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 GICs) representing security for the Company's long-term debt (see Note 12).

7. ACCOUNTS RECEIVABLE

	September 30, 2011	December 31, 2010	January 1, 2010
Trade receivables	\$ 882,809	\$ 637,795	\$ 408,911
Allowance for doubtful accounts	(3,947)	(781)	(2,664)
Net trade receivables	878,862	637,014	406,247
Other receivables	43,938	24,985	36,293
	<u>\$ 922,800</u>	<u>\$ 661,999</u>	<u>\$ 442,540</u>

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:

	September 30, 2011	December 31, 2010	January 1, 2010
Not past due	\$ 794,349	\$ 612,092	\$ 400,559
Past due 0 - 30 days	84,513	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	3,947	-	-
	<u>\$ 882,809</u>	<u>\$ 637,795</u>	<u>\$ 408,911</u>

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:

	September 30, 2011	December 31, 2010
Balance January 1,	\$ 781	\$ 2,664
Amounts recorded during period	3,166	(1,883)
	<u>\$ 3,947</u>	<u>\$ 781</u>

NEOVASC INC.

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8. INVENTORY

	September 30, 2011	December 31, 2010	January 1, 2010
Raw materials	\$ 114,615	\$ 214,499	\$ 152,729
Work in progress	151,182	184,922	74,318
Finished goods	230,242	70,323	177,262
	\$ 496,669	\$ 469,744	\$ 404,309

During the three and nine months ended September 30, 2011 \$621,489 and \$1,352,935 (September 30, 2010: \$343,500 and \$1,313,194) of inventory was expensed in cost of goods sold, and \$54,998 and \$45,434 (September 30, 2010: \$20,079 and \$11,395) 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 12).

NEOVASC INC.

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9. 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	1,984	113,974
Disposals	-	-	-	-	-	(22,941)	(22,941)
Balance at December 31, 2010	\$ 207,347	\$ 1,081,177	\$ 528,561	\$ 170,279	\$ 216,739	\$ 162,023	\$ 2,366,126
Additions	-	74,200	36,281	6,914	25,079	-	142,474
Balance at September 30, 2011	\$ 207,347	\$ 1,155,377	\$ 564,842	\$ 177,193	\$ 241,818	\$ 162,023	\$ 2,508,600
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	10,055	123,117
Disposals	-	-	-	-	-	(7,239)	(7,239)
Balance at December 31, 2010	\$ -	\$ 224,832	\$ 440,725	\$ 136,740	\$ 213,635	\$ 125,713	\$ 1,141,645
Depreciation for the period	-	27,172	24,644	8,626	2,916	5,446	68,804
Balance at September 30, 2011	\$ -	\$ 252,004	\$ 465,369	\$ 145,366	\$ 216,551	\$ 131,159	\$ 1,210,449
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 September 30, 2011	\$ 207,347	\$ 903,373	\$ 99,473	\$ 31,827	\$ 25,267	\$ 30,864	\$ 1,298,151

As at September 30, 2011, all property, plant and equipment were pledged as security for the long-term debt of the Company (see Note 12).

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10. BANK OVERDRAFT

	September 30, 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.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2011	December 31, 2010	January 1, 2010
Trade payables	\$ 277,644	\$ 414,333	\$ 617,713
Accrued liabilities	250,313	225,552	245,105
Other payables	12,722	7,992	99,694
	\$ 540,679	\$ 647,877	\$ 962,512

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

12. LONG-TERM DEBT

	September 30, 2011	December 31, 2010	January 1, 2010
Bank Installment loan	\$ 331,631	\$ 359,502	\$ 397,075
Less current portion	(41,362)	(40,630)	(39,978)
	\$ 290,269	\$ 318,872	\$ 357,097

Repayments will consist of 180 regular blended payments of \$4,095 each month, including interest and principal, commencing on September 1, 2007 and ending on August 1, 2022. The loan 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:

	September 30, 2011	December 31, 2010	January 1, 2010
Year 1	\$ 41,362	\$ 40,630	\$ 39,978
Year 2	42,664	41,972	41,040
Year 3	43,699	42,991	42,036
Year 4	44,759	44,034	43,056
Year 5	45,845	45,103	44,101
Thereafter	113,302	144,772	186,864
	\$ 331,631	\$ 359,502	\$ 397,075

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

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13. 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	\$ 4,630,337
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	
Share-based payments			509,219
Issued for cash on exercise of options	128,331	283,353	(277,466)
Balance, December 31, 2010	40,364,334	\$ 64,841,468	\$ 4,862,090
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)		(38,017)	
Share-based payments			1,247,096
Issued for cash on exercise of options	280,888	525,319	(494,585)
Balance, September 30, 2011	45,692,015	\$ 70,179,697	\$ 5,614,601

- (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 13(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 13(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 \$38,107.

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13. 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 live (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	(280,888)	0.11	
Forfeited	(7,550)	0.84	
Options outstanding, September 30, 2010	6,316,114	\$ 0.67	3.74
Options exercisable, September 30, 2010	3,457,327	\$ 0.53	3.63
Weighted average measurement date fair value of stock options awarded during the period		\$ 0.89	

The following table lists the options outstanding at September 30, 2011 by exercise price:

Exercise price	Options outstanding	Weighted average remaining term (yrs)	Options exercisable	Weighted average remaining term (yrs)
\$ 0.01	567,377	5.24	567,377	5.24
\$ 0.20-0.40	2,425,237	3.20	1,805,962	3.20
\$ 0.97-1.15	3,323,500	3.99	1,173,988	3.57
	6,316,114		3,457,327	

The weighted average share price at the date of exercise for share options exercised for the nine months ended September 30, 2011 was \$0.11 (for the nine months ended September 30, 2010: \$0.05). During the three and nine months ended September 30, 2011, the Company recorded \$448,931 and \$1,247,096 as compensation expense for stock-based compensation awarded to eligible optionees (three and nine months ended September 30, 2010: \$88,975 and \$395,971). 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	\$ 0.31
Dividend yield	nil	nil
Volatility	141%	129%
Risk-free interest rate	3.00%	2.50%
Expected life	5 years	5 years

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13. SHARE CAPITAL (continued)

(d) Warrants

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

	<u>Number of warrants</u>
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, September 30, 2010	2,360,250

- (i) Pursuant to the non-brokered private placement on February 19, 2010 (see Note 13(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 13(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 13(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 13(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.

14. EMPLOYEE BENEFITS EXPENSE

	For the three months ended September 30,		For the nine months ended September 30,	
	2011	2010	2011	2010
Wages and salaries	\$ 659,384	\$ 609,650	\$ 1,935,062	\$ 1,847,307
Canadian pension plan and employment insurance	26,523	22,891	102,308	93,805
Contribution to defined contribution pension plan	15,647	11,825	43,883	37,213
Share-based payments	448,931	88,975	1,247,096	395,971
	\$ 1,150,485	\$ 733,341	\$ 3,328,349	\$ 2,374,296

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15. DEPRECIATION AND SHARE-BASED PAYMENTS

	For the three months ended September 30,		For the nine months ended September 30,	
	2011	2010	2011	2010
COST OF GOODS SOLD				
Depreciation	\$ 3,675	\$ 4,599	\$ 10,637	\$ 13,427
Share-based payments	3,682	1,313	16,026	7,008
Other costs	785,327	562,624	1,842,754	1,752,500
TOTAL COST OF GOODS SOLD	\$ 792,684	\$ 568,536	\$ 1,869,417	\$ 1,772,935
EXPENSES				
Selling expenses				
Share-based payments	\$ 1,558	\$ 237	\$ 6,639	\$ 1,371
Other costs	46,596	40,526	138,603	133,641
	48,154	40,763	145,242	135,012
General and administrative expenses				
Depreciation	13,613	20,916	39,618	59,942
Share-based payments	358,248	74,063	973,033	322,599
Other costs	402,968	387,796	1,325,170	1,321,540
	774,829	482,775	2,337,821	1,704,081
Product development and clinical trials expenses				
Depreciation	7,289	5,348	18,549	15,646
Share-based payments	85,443	13,362	251,398	64,993
Other costs	679,253	311,683	1,765,961	1,146,615
	771,985	330,393	2,035,908	1,227,254
TOTAL EXPENSES	\$ 1,594,968	\$ 853,931	\$ 4,518,971	\$ 3,066,347
Depreciation per statements of cash flows	\$ 24,577	\$ 30,863	\$ 68,804	\$ 89,015
Share-based payments per statements of cash flows	\$ 448,931	\$ 88,975	\$ 1,247,096	\$ 395,971

16. 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 three and nine months ended September 30, 2011 amounted to 43,319,100 and 41,425,368 shares, respectively (three and nine month ended September 30, 2010: 37,832,943 and 34,852,714 shares). The weighted average number of diluted common shares outstanding can be reconciled to the weighted average number of common shares used in the calculation of basic loss per share as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2011	2010	2011	2010
Weighted average number of common shares - basic	43,319,100	37,832,943	41,425,368	34,852,714
Loss for the period	(891,507)	(406,944)	(2,880,746)	(1,812,914)
Basic loss per share	\$ (0.02)	\$ (0.01)	\$ (0.07)	\$ (0.05)
Weighted average number of common shares - basic	43,319,100	37,832,943	41,425,368	34,852,714
Incremental shares from effect of stock options on issue	1,690,821	773,850	1,704,933	782,113
Weighted average number of common shares - diluted	45,009,921	38,606,793	43,130,301	35,634,827

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

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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 three months ended September 30,		For the nine months ended September 30,	
	2011	2010	2011	2010
SALES				
United States	\$ 589,899	\$ 612,943	\$ 1,266,035	\$ 1,482,987
Europe	594,697	258,832	1,467,367	980,384
Israel	196,024	77,569	589,622	430,619
Canada	45,427	65,156	152,348	146,271
	\$ 1,426,047	\$ 1,014,500	\$ 3,475,372	\$ 3,040,261

Sales to the Company's three largest customers accounted for approximately 33%, 23% and 21% of the Company's sales for the three months ended September 30, 2011, and 34%, 24%, and 14% of the Company's sales for the nine months ended September 30, 2011. Comparatively, sales to the Company's three largest customers accounted for approximately 42%, 22% and 6% of the Company's sales for the three months ended September 30, 2010, and 38%, 25% and 11% of the Company's sales for the nine months ended September 30, 2010.

18. RELATED PARTY TRANSACTIONS

Transactions with key management personnel.

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.

Remuneration of key management personnel includes the following expenses:

	For the three months ended September 30,		For the nine months ended September 30,	
	2011	2010	2011	2010
Short-term employee benefits				
Employee salaries	\$ 151,875	\$ 150,000	\$ 455,625	\$ 450,000
Directors fees	14,487	19,364	45,055	61,788
Social security and medical care costs	2,106	990	13,366	12,015
	168,468	170,354	514,046	523,803
Post-employment benefits				
Contributions to defined contribution pension plan	5,695	3,750	15,187	11,250
	5,695	3,750	15,187	11,250
Share-based payments	138,448	60,477	741,891	283,438
	138,448	60,477	741,891	283,438
Total key management remuneration	\$ 312,611	\$ 234,581	\$ 1,271,124	\$ 818,491

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2011 and 2010

(Expressed in Canadian dollars)

19. FIRST-TIME ADOPTION OF IFRS

These are the Company's First Consolidated Financial Statements prepared under IFRS. The date of transition to IFRS is January 1, 2010.

The accounting policies set out in Note 3 have been applied in preparing the Interim Consolidated Financial Statements for the three and nine months ended September 30, 2011, the comparative information presented in these Interim Consolidated Financial Statements for the three and nine months ended September 30, 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.

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2011 and 2010

(Expressed in Canadian dollars)

19. FIRST-TIME ADOPTION OF IFRS (continued)

(b) Reconciliation of equity

Notes	January 1, 2010			September 30, 2010			December 31, 2010				
	Previous Canadian GAAP	Effect of transition to IFRS	IFRS	Previous Canadian GAAP	Effect of transition to IFRS	IFRS	Previous Canadian GAAP	Effect of transition to IFRS	IFRS		
ASSETS											
Current assets											
	Cash and cash equivalents	19(f)(ii)	\$ 111,368	186,897	\$ 298,265	\$ 841,421	134,618	\$ 976,039	\$ 1,275,747	213,280	\$ 1,489,027
	Accounts receivable		442,540	-	442,540	488,381	-	488,381	661,999	-	661,999
	Inventory		404,309	-	404,309	641,699	-	641,699	469,744	-	469,744
	Prepaid and other assets		15,771	-	15,771	57,643	-	57,643	33,729	-	33,729
	Total current assets		973,988	186,897	1,160,885	2,029,144	134,618	2,163,762	2,441,219	213,280	2,654,499
Non-current assets											
	Property, plant and equipment		1,249,326	-	1,249,326	1,252,089	-	1,252,089	1,224,481	-	1,224,481
	Restricted cash and cash equivalents		50,000	-	50,000	50,000	-	50,000	50,000	-	50,000
	Total non-current assets		1,299,326	-	1,299,326	1,302,089	-	1,302,089	1,274,481	-	1,274,481
	Total Assets		\$ 2,273,314	186,897	\$ 2,460,211	\$ 3,331,233	134,618	\$ 3,465,851	\$ 3,715,700	213,280	\$ 3,928,980
LIABILITIES AND EQUITY											
Liabilities											
Current liabilities											
	Bank overdraft	19(f)(ii)	\$ -	186,897	\$ 186,897	\$ -	134,618	\$ 134,618	\$ -	213,280	\$ 213,280
	Accounts payable and accrued liabilities		962,512	-	962,512	555,658	-	555,658	647,877	-	647,877
	Current portion of long-term debt		39,978	--	39,978	40,778	-	40,778	40,630	-	40,630
	Total current liabilities		1,002,490	186,897	1,189,387	596,436	134,618	731,054	688,507	213,280	901,787
Non-current liabilities											
	Long-term debt		357,097	-	357,097	326,994	-	326,994	318,872	-	318,872
	Total non-current liabilities		357,097	-	357,097	326,994	-	326,994	318,872	-	318,872
	Total Liabilities		1,359,587	186,897	1,546,484	923,430	134,618	1,058,048	1,007,379	213,280	1,220,659
Equity											
	Share capital		60,648,625	-	60,648,625	63,590,510	-	63,590,510	64,841,468	-	64,841,468
	Contributed surplus	19(f)(iii)	4,631,349	(1,012)	4,630,337	5,002,275	(6,833)	4,995,442	4,863,985	(1,895)	4,862,090
	Deficit	19(f)(iii)	(64,366,247)	1,012	(64,365,235)	(66,186,982)	6,833	(66,178,149)	(66,997,132)	1,895	(66,995,237)
	Total equity		913,727	-	913,727	2,407,803	-	2,407,803	2,708,321	-	2,708,321
	Total liabilities and equity		\$ 2,273,314	186,897	\$ 2,460,211	\$ 3,331,233	134,618	\$ 3,465,851	\$ 3,715,700	213,280	\$ 3,928,980

The balance sheet as at September 30, 2011 has only been reported under IFRS as Canadian GAAP does not exist for that reporting period. There are no material differences between the balance sheet as at September 30, 2011 as reported under IFRS and the balance sheet that would have been reported under Canadian GAAP applicable to fiscal 2010 if Canadian GAAP had continued to exist and been applied to the first interim reporting period of fiscal 2011.

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2011 and 2010

(Expressed in Canadian dollars)

19. FIRST-TIME ADOPTION OF IFRS (continued)

(c) Reconciliation of comprehensive income for the three and nine months ended September 30, 2010

Three months ended September 30, 2010	Notes	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
REVENUE				
Product sales	19(f)(iv)	\$ 639,356	(99,878)	\$ 539,478
Contract manufacturing	19(f)(iv)	-	99,878	99,878
Consulting services		375,144	-	375,144
		<u>1,014,500</u>	<u>-</u>	<u>1,014,500</u>
COST OF GOODS SOLD				
	19(f)(v)	563,937	4,599	568,536
GROSS PROFIT		<u>450,563</u>	<u>(4,599)</u>	<u>445,964</u>
EXPENSES				
Selling expenses		40,763	-	40,763
General and administrative expenses	19(f)(iii&v)	465,632	17,143	482,775
Product development and clinical trials expenses	19(f)(v)	325,045	5,348	330,393
Depreciation	19(f)(v)	30,863	(30,863)	-
		<u>862,303</u>	<u>(8,372)</u>	<u>853,931</u>
OPERATING LOSS		<u>(411,740)</u>	<u>3,773</u>	<u>(407,967)</u>
OTHER INCOME/(EXPENSE)				
Interest income		119	-	119
Interest expense		(2,223)	-	(2,223)
Gain on foreign exchange		3,127	-	3,127
		<u>1,023</u>	<u>-</u>	<u>1,023</u>
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		<u>\$ (410,717)</u>	<u>3,773</u>	<u>\$ (406,944)</u>
LOSS PER SHARE				
Basic and diluted loss per share	19(f)(vi)	\$ (0.02)	-	\$ (0.01)
Nine months ended September 30, 2010				
	Notes	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
REVENUE				
Product sales	19(f)(iv)	\$ 2,024,053	(531,780)	\$ 1,492,273
Contract manufacturing	19(f)(iv)	-	531,780	531,780
Consulting services		1,016,208	-	1,016,208
		<u>3,040,261</u>	<u>-</u>	<u>3,040,261</u>
COST OF GOODS SOLD				
	19(f)(v)	1,759,508	13,427	1,772,935
GROSS PROFIT		<u>1,267,326</u>	<u>(13,427)</u>	<u>1,267,326</u>
EXPENSES				
Selling expenses		135,012	-	135,012
General and administrative expenses	19(f)(iii&v)	1,649,960	54,121	1,704,081
Product development and clinical trials expenses	19(f)(v)	1,211,608	15,646	1,227,254
Depreciation	19(f)(v)	89,015	(89,015)	-
		<u>3,085,595</u>	<u>(8,372)</u>	<u>3,066,347</u>
OPERATING LOSS		<u>(1,804,842)</u>	<u>5,821</u>	<u>(1,799,201)</u>
OTHER INCOME/(EXPENSE)				
Interest income		348	-	348
Interest expense		(7,552)	-	(7,552)
Loss on foreign exchange		(6,689)	-	(6,689)
		<u>(13,893)</u>	<u>-</u>	<u>(13,893)</u>
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		<u>\$ (1,818,735)</u>	<u>5,821</u>	<u>\$ (1,812,914)</u>
LOSS PER SHARE				
Basic and diluted loss per share	19(f)(vi)	\$ (0.05)	-	\$ (0.05)

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2011 and 2010

(Expressed in Canadian dollars)

19. FIRST-TIME ADOPTION OF IFRS (continued)

(d) Reconciliation of comprehensive income 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
		<u>4,358,825</u>	-	<u>4,358,825</u>
COST OF GOODS SOLD	19(f)(v)	2,614,919	18,069	2,632,988
GROSS PROFIT		<u>1,743,906</u>	<u>(18,069)</u>	<u>1,725,837</u>
EXPENSES				
Selling expenses		190,743	-	190,743
General and administrative expenses	19(f)(iii&v)	2,165,070	82,711	2,247,781
Product development and clinical trials expenses	19(f)(v)	1,820,688	21,455	1,842,143
Depreciation	19(f)(v)	123,118	(123,118)	-
		<u>4,299,619</u>	<u>(18,952)</u>	<u>4,280,667</u>
OPERATING LOSS		<u>(2,555,713)</u>	<u>833</u>	<u>(2,554,830)</u>
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)
		<u>(75,172)</u>	<u>-</u>	<u>(75,172)</u>
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		<u>\$ (2,630,885)</u>	<u>833</u>	<u>\$ (2,630,002)</u>
LOSS PER SHARE				
Basic and diluted loss per share	19(f)(vi)	<u>\$ (0.07)</u>	<u>-</u>	<u>\$ (0.07)</u>

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

Consistent with the Company's accounting policy choice under IAS 7 Statement of Cash Flows, interest paid has moved into the body of the Statement of Cash Flows, whereas it was previously disclosed as supplementary information. 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.

(f) 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 Notes 19(f)(ii), 19(f)(iv) and 19(f)(v).

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 19(f)(v)).

In addition, amounts previously reported under "Product sales" have been disaggregated into "Product sales" and "Contract manufacturing" under IFRS (see Note 19(f)(iv)).

Amounts previously reported under "Cash and cash equivalents" have been disaggregated into "Cash" and "Bank overdraft" under IFRS (see Note 19(f)(ii)).

NEOVASC INC.

Notes to the Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2011 and 2010

(Expressed in Canadian dollars)

19. FIRST-TIME ADOPTION OF IFRS (continued)

(f) Notes to the reconciliations (continued)

(ii) Bank overdraft

Amounts previously reported under "Cash and cash equivalents" have been disaggregated into "Cash" and "Bank overdraft" under IFRS. Consequently, amounts reported as "Cash and cash equivalents" increased by \$186,897 as at January 1, 2010, by \$134,618 as at September 30, 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, by \$134,618 as at September 30, 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 decreased by \$1,012 as at January 1, 2010 (September 30, 2010: decreased by \$6,833; December 31, 2010: decreased by \$1,895), and deficit decreased by \$1,012 as at January 1, 2010 (September 30, 2010: decreased by \$6,833, December 31, 2010: decreased by \$1,895); Share-based payment expenses in "General and administrative expenses" decreased by \$3,773 and \$5,821 for the three and nine months ended September 30, 2010, respectively, and decreased by \$883 for the year-ended December 31, 2010.

(iv) Product sales

Amounts previously reported under "Product sales" has been disaggregated into "Product sales" and "Contract manufacturing" under IFRS. Consequently, amounts reported as "Product sales" decreased by \$99,878 and \$531,780, and amounts reported as "Contract manufacturing" increased by \$99,878 and \$531,780 for the three and nine months ended September 30, 2010, respectively.

(v) 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 \$4,599, \$20,916, and \$5,348 respectively for the three months ended September 30, 2010, increased by \$13,427, \$59,942, and \$15,646 respectively for the nine months ended September 30, 2010, and increased by \$18,068, \$83,594, and \$21,455 respectively for the year-ended December 31, 2010.

(vi) Basic and diluted loss per share

Basic and diluted earnings per share in 2010 are the same under IFRS as reported under Canadian GAAP. See Note 16 for further information on loss per share.

20. AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the three and nine months ended September 30, 2011 (including comparatives) were approved by the board of directors on November 2, 2011.

(signed) **Alexei Marko**

Alexei Marko, Director

(signed) **Steven Rubin**

Steven Rubin, Director