Neovasc Inc.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010

(Expressed in Canadian dollars)

CONTENTS

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	**March 31, 2011**	December 31, 2010	January 1, 2010
ASSETS				
Current assets				
Cash and cash equivalents	6	**$ 1,252,497**	$ 1,489,027	$ 298,265
Accounts receivable	7	**477,974**	661,999	442,540
Inventory	8	**557,453**	469,744	404,309
Prepaid expenses and other assets		**25,217**	33,729	15,771
Total current assets		**2,313,141**	2,654,499	1,160,885
Non-current assets				
Property, plant and equipment	9	**1,291,434**	1,224,481	1,249,326
Restricted cash equivalents	12	**50,000**	50,000	50,000
Total non-current assets		**1,341,434**	1,274,481	1,299,326
Total assets		**$ 3,654,575**	$ 3,928,980	$ 2,460,211
LIABILITIES AND EQUITY				
Liabilities				
Current liabilities				
Bank overdraft	10	**$ 191,721**	$ 213,280	$ 186,897
Accounts payable and accrued liabilities	11	**688,718**	647,877	962,512
Current portion of long-term debt	12	**40,897**	40,630	39,978
Total current liabilities		**921,336**	901,787	1,189,387
Non-current liabilities				
Long-term debt	12	**309,329**	318,872	357,097
Total non-current liabilities		**309,329**	318,872	357,097
Total liabilities		**1,230,665**	1,220,659	1,546,484
Equity				
Share capital	13	**65,056,791**	64,841,468	60,648,625
Contributed surplus	13	**5,335,810**	4,862,090	4,630,337
Deficit		**(67,968,691)**	(66,995,237)	(64,365,235)
Total equity		**2,423,910**	2,708,321	913,727
Total liabilities and equity		**$ 3,654,575**	$ 3,928,980	$ 2,460,211

GOING CONCERN (see Note 2(b))
FIRST-TIME ADOPTION OF IFRS (see Note 20(b))

See Accompanying Notes to the Consolidated Financial Statements

NEOVASC INC.

Interim Consolidated Statements of Comprehensive Loss (Unaudited)

For the three months ended March 31,
(Expressed in Canadian dollars)

	Notes	2011	2010
REVENUE			
Product sales		**$ 550,681**	$ 377,476
Contract manufacturing		**290,251**	360,486
Consulting services		**328,988**	327,879
		1,169,920	1,065,841
COST OF GOODS SOLD	$ 15	**665,776**	587,359
GROSS PROFIT		**504,144**	478,482
EXPENSES			
Selling expenses	15	**47,246**	44,891
General and administrative expenses	15	**938,730**	506,293
Product development and clinical trials expenses	15	**457,864**	358,181
		1,443,840	909,365
OPERATING LOSS		**(939,696)**	(430,883)
OTHER INCOME (EXPENSES)			
Interest income		**115**	114
Interest on long-term debt		**(3,009)**	(2,338)
Loss on foreign exchange		**(30,864)**	(39,129)
		(33,758)	(41,353)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		**$ (973,454)**	$ (472,236)
LOSS PER SHARE			
Basic and diluted loss per share	16	**$ (0.02)**	$ (0.02)

FIRST-TIME ADOPTION OF IFRS (see Note 20(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	1,514,733	-	-	1,514,733
Share-based payments	-	121,892	-	121,892
Transaction with owners during the period	**1,514,733**	**121,892**	**-**	**1,636,625**
Loss and comprehensive loss for the period	**-**	**-**	**(472,236)**	**(472,236)**
Balance at March 31, 2010	**$ 62,163,358**	**$ 4,752,229**	**$ (64,837,471)**	**$ 2,078,116**
Balance at January 1, 2011	**$ 64,841,468**	**$ 4,862,090**	**$ (66,995,237)**	**$ 2,708,321**
Issue of share capital on exercise of warrants	130,517	-	-	130,517
Issue of share capital on exercise of options	84,806	(58,208)	-	26,598
Share-based payments	-	531,928	-	531,928
Transaction with owners during the period	**215,323**	**473,720**	**-**	**689,043**
Loss and comprehensive loss for the period	**-**	**-**	**(973,454)**	**(973,454)**
Balance at March 31, 2011	**$ 65,056,791**	**$ 5,335,810**	**$ (67,968,691)**	**$ 2,423,910**

See Accompanying Notes to Consolidated Financial Statements

NEOVASC INC.

Interim Consolidated Statements of Cash Flow (Unaudited)

For the three months ended March 31,
(Expressed in Canadian dollars)

	Notes	2011	2010
OPERATING ACTIVITIES			
Loss for the period		**$ (973,454)**	$ (472,236)
Adjustments for :			
Depreciation	15	**20,939**	27,463
Share-based payments	15	**531,928**	121,892
Interest income		**(115)**	(114)
Interest expense		**3,009**	2,338
		(417,693)	(320,657)
Net change in non-cash working capital items:			
Accouts receivable		**184,025**	(172,370)
Inventory		**(87,709)**	(111,887)
Prepaid expenses and other assets		**8,512**	(24,840)
Accounts payable and accrued liabilities		**40,841**	(194,498)
		145,669	(503,595)
Interest paid and received :			
Interest received		**115**	114
Interest paid		**(3,009)**	(2,338)
		(2,894)	(2,224)
		(274,918)	(826,476)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(87,892)**	(30,855)
		(87,892)	(30,855)
FINANCING ACTIVITIES			
(Decrease) Increase in bank overdraft		**(21,559)**	18,643
Repayment of long-term debt		**(9,276)**	(9,947)
Proceeds from share issue, net of costs of $22,015		**-**	1,514,733
Proceeds from exercise of warrants		**130,517**	-
Proceeds from exercise of stock options		**26,598**	-
		126,280	1,523,429
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(236,530)**	666,098
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**1,489,027**	298,265
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ 1,252,497**	$ 964,363
REPRESENTED BY:			
Cash		**1,250,190**	962,523
Cashable guaranteed investment certificates		**2,307**	1,840
Total cash and cash equivalents		**$ 1,252,497**	$ 964,363

See Accompanying Notes to the Consolidated Financial Statements

1. INCORPORATION AND NATURE OF BUSINESS

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

Neovasc Inc. is the parent company. The consolidated financial statements of the Company as at March 31, 2011, December 31, 2010 and January 1, 2010 and for the three months ended March 31, 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 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. 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 20 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 20.

The results for the three months ended March 31, 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 $973,454 for the three months ended March 31, 2011 (2010: $472,236) and has a deficit of $67,968,691 as at March 31, 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.

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, impairment of non-financial assets, useful lives for depreciation and expected life, volatility and forfeiture rates for share-based payments.

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 equivalents of $50,000 representing security for the Company's long-term debt (see Note 12).

The restricted cash equivalent was deposited in a guaranteed investment certificate ("GIC") returning a fixed rate of interest of 0.90%. The GIC has an initial term of one-year and matures on July 1, 2011 and is renewed annually.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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, furniture and fixtures	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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment of assets (continued)

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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 and employees (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.

(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:

	March 31, 2011	December 31, 2010	January 1, 2010
Equity	**$ 2,423,910**	$ 2,708,321	$ 913,727
Long-term debt	**350,226**	359,502	397,075
	$ 2,774,136	$ 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 March 31, 2011, December 31, 2010 and January 1, 2010, the Company was in compliance with all financial covenants associated with its long-term debt.

For the three months ended March 31, 2011 and for the three months ended March 31, 2010 there were no changes in the Company's capital management policy.

5. FINANCIAL RISK MANAGEMENT

(a) Foreign exchange risk

The majority of the Company's revenues are derived from product sales in the United States and Europe, primarily denominated in United States and European Union currency. Management has considered the stability of the foreign currency and the impact a change in the exchange rate may have on future earnings during the forecasting process. United States and European Union currency represents approximately 69% (three months ended March 31, 2010: 63%) and 28% (three months ended March 31, 2010: 35%) of the revenue for the three months ended March 31, 2011. A 5% change in the foreign exchange rate for United States and European Union currency will result in a change in revenues of approximately $40,000 and $16,000 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 $15,000 and $7,000 respectively and a change in foreign currency denominated accounts payable of approximately $3,300 and $300 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 March 31, 2011 the Company had working capital of $1,391,805 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 March 31, 2011: $449,794 (December 31, 2010: $637,014 and January 1, 2010: $406,248).

As at March 31, 2011, the Company had $6,831 (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 $781 of trade accounts receivable which management believes may be impaired (December 31, 2010: $781 and January 1, 2010: $2,664). During the three months ended March 31, 2011 and for the three months ended March 31, 2010 the Company wrote down $nil of accounts receivable owed by customers.

(Expressed in Canadian dollars)

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes the following components:

	March 31, 2011	December 31, 2010	January 1, 2010
Cash at bank and in hand:			
United States dollars	**$ 1,189,554**	$ 917,981	$ 67,597
Euorpean Euros	**6,649**	373,030	151,111
Canadian dollars	**53,987**	195,825	77,831
Short-term deposits held as GIC	**2,307**	2,191	1,726
Cash and cash equivalents	**$ 1,252,497**	$ 1,489,027	$ 298,265

In addition, as at March 31, 2011 the Company has restricted cash of $50,000, held in a GIC (December 31, 2010 - $50,000 and January 1, 2010 - $50,000) representing security for the Company's long-term debt (see Note 12).

7. ACCOUNTS RECEIVABLE

	March 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	**$ 450,575**	$ 637,795	$ 408,911
Allowance for doubtful accounts	**(781)**	(781)	(2,664)
Trade receivables, net	**449,794**	637,014	406,248
Other receivables	**28,180**	24,985	36,292
	$ 477,974	$ 661,999	$ 442,540

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

	March 31, 2011	December 31, 2010	January 1, 2010
Not past due	**$ 443,744**	$ 612,092	$ 400,559
Past due 0 - 30 days	**306**	6,446	1,146
Past due 31 - 60 days	**6,525**	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	**-**	-	-
	$ 450,575	$ 637,795	$ 408,911

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:

	March 31, 2011	December 31, 2010
Balance January 1,	**$ 781**	$ 2,664
Amounts recovered during the period	**-**	(1,883)
Balance	**$ 781**	$ 781

(Expressed in Canadian dollars)

8. INVENTORY

	March 31, 2011	December 31, 2010	January 1, 2010
Materials	**$ 176,403**	$ 214,499	$ 152,729
Work in progress	**296,624**	184,922	74,318
Finished goods	**84,426**	70,323	177,262
	$ 557,453	$ 469,744	$ 404,309

During the three months ended March 31, 2011 $481,057 (March 31, 2010: $382,208) of inventory was expensed in cost of goods sold and $4,365 (March 31, 2010: $11,496) of inventory was used in internal development projects and expensed in product development and clinical trial expenses. None of the inventories are pledged as security.

(Expressed in Canadian dollars)

9. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Production Equipment	Computer Hardware	Computer Software	Office equipment, furniture and fixtures	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	-	58,221	25,096	4,575	-	-	**87,892**
Balance at March 31, 2011	**$ 207,347**	**$ 1,139,398**	**$ 553,657**	**$ 174,854**	**$ 216,739**	**$ 162,023**	**$ 2,454,018**
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	-	8,635	7,085	2,627	776	1,816	**20,939**
Balance at March 31, 2011	**$ -**	**$ 233,467**	**$ 447,810**	**$ 139,367**	**$ 214,411**	**$ 127,529**	**$ 1,162,584**
Carring 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 March 31, 2011	**$ 207,347**	**$ 905,931**	**$ 105,847**	**$ 35,487**	**$ 2,328**	**$ 34,494**	**$ 1,291,434**

As at March 31, 2011, no property, plant and equipment were pledged as security.

(Expressed in Canadian dollars)

10. BANK OVERDRAFT

		March 31, 2011		December 31, 2010		January 1, 2010
Overdraft per bank statement	$	**177,361**	$	138,512	$	165,331
Outstanding cheques		**14,360**		74,768		21,566
Bank overdraft	$	**191,721**	$	213,280	$	186,897

The Company has an operating line of credit secured on 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. 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

		March 31, 2011		December 31, 2010		January 1, 2010
Trade payables	$	**382,383**	$	414,333	$	617,713
Accrued liabilities		**284,105**		225,552		245,105
Other payables		**22,230**		7,992		99,694
	$	**688,718**	$	647,877	$	962,512

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

(Expressed in Canadian dollars)

12. LONG-TERM DEBT

		March 31, 2011		December 31, 2010		January 1, 2010
Bank instalment loan	**$**	**350,226**	$	359,502	$	397,075
Less current portion		**(40,897)**		(40,630)		(39,978)
	$	**309,329**	$	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 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 plus 0.500% per annum.

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

		March 31, 2011		December 31, 2010		January 1, 2010
Year 1	**$**	**40,897**	$	40,630	$	39,978
Year 2		**42,202**		41,972		41,040
Year 3		**43,227**		42,991		42,036
Year 4		**44,275**		44,034		43,056
Year 5		**45,350**		45,103		44,101
Thereafter		**134,275**		144,772		186,864
	$	**350,226**	$	359,502	$	397,075

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

(Expressed in Canadian dollars)

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	Common Shares 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	
Share-based payments			531,928
Issued for cash on exercise of options	80,949	84,806	(58,208)
Balance, March 31, 2011	**40,771,576**	**$65,056,791**	**$ 5,335,810**

(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.

(Expressed in Canadian dollars)

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

	Number of Options		Weighted Average Exercise Price	Average Remaining Contractual Life (years)
Options outstanding, January 1, 2010	**2,329,671**	**$**	**0.49**	**4.79**
Granted	2,007,965	$	0.38	4.83
Exercised	(128,331)	$	0.05	
Forfeited	(71,268)	$	0.42	
Expired	(1,735)	$	0.20	
Options outstanding, December 31, 2010	**4,136,302**	**$**	**0.46**	**4.05**
Granted	**1,293,000**	**$**	**1.00**	
Exercised	**(80,949)**	**$**	**0.33**	
Forfeited	**(1,050)**	**$**	**1.15**	
Options outstanding, March 31, 2011	**5,347,303**	**$**	**0.57**	**4.05**
Options exercisable, March 31, 2011	**3,447,028**	**$**	**0.46**	**4.04**
Weighted average measurement date fair value of stock options awarded during the period	$ 0.89			

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

Exercise price	**Options outstanding**	**Weighted average remaining term (in years)**	**Options exercisable**	**Weighted average remaining term (in years)**
$0.01	756,499	5.30	756,499	5.30
$0.20 - $0.40	2,438,554	3.69	1,796,079	3.69
$0.97 - $1.15	2,152,250	4.02	894,450	3.67
	5,347,303		**3,447,028**	

(Expressed in Canadian dollars)

13. SHARE CAPITAL (continued)

(c) Stock options (continued)

The weighted average share price at the date of exercise for share options exercised in first quarter of 2011 was $0.33 (for the three months ended March 31, 2010: $nil). During the three months ended March 31, 2011, the Company recorded $531,928 as compensation expense for stock-based compensation awarded to eligible optionees (three months ended March 31, 2010: $121,892). 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

In estimating expected volatility, historical data has been considered in setting the assumptions.

(d) Warrants

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

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

(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.

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

(Expressed in Canadian dollars)

14. EMPLOYEE BENEFITS EXPENSE

	For the three months ended March 31, **2011**	2010
Wages and salaries	**$ 640,164**	$ 605,082
Canadian Pension Plan and Emplyment Insurance	**43,302**	40,244
Contribution to defined contribution pension plans	**16,109**	12,680
Share-based payments	**531,928**	121,892
	$ 1,231,503	$ 779,898

15. DEPRECIATION AND SHARE-BASED PAYMENTS

	For the three months ended March 31, **2011**	2010
COST OF GOOD SOLD		
Depreciation	**$ 3,287**	$ 4,415
Share-based payments	**1,863**	5,488
Other costs	**660,626**	577,456
	$ 665,776	$ 587,359
EXPENSES		
Selling expenses		
Depreciation	**$ -**	$ -
Share-based payments	**763**	899
Other expenses	**46,483**	43,992
	47,246	44,891
General and administrative expenses		
Depreciation	**12,535**	17,982
Share-based payments	**474,082**	72,003
Other expenses	**452,113**	416,308
	938,730	506,293
Product development and clinical trials expenses		
Depreciation	**5,117**	5,066
Share-based payments	**55,220**	43,502
Other expenses	**397,527**	309,613
	457,864	358,181
	$ 1,443,840	$ 909,365
Depreciation per statements of cash flows	**$ 20,939**	$ 27,463
Share-based payments per statements of cash flows	**$ 531,928**	$ 121,892

(Expressed in Canadian dollars)

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 months ended March 31, 2011 amounted to 40,150,331 shares (three month ended March 31, 2010: 29,982,559 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 March 31,			
		2011		2010
Weighted average number of common shares outstanding (basic)		**40,150,331**		29,982,559
Loss for the period		**(973,454)**		(472,236)
Basic Loss per Share	**$**	**(0.02)**	$	(0.02)
Weighted average number of common shares outstanding (basic)		**40,150,331**		29,982,559
Incemental shares from effect of stock options on issue		**1,888,508**		889,921
Incemental shares from effect of warrants on issue		**-**		793,650
Weighted average number of common shares outstanding (diluted)		**42,038,839**		31,666,130

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.

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 March 31,			
		2011		2010
SALES				
United States	**$**	**545,319**	$	339,980
Europe		**369,776**		365,303
Israel		**221,720**		319,570
Canada		**33,105**		40,988
	$	**1,169,920**	$	1,065,841

Sales to the Company's three largest customers accounted for approximately 38%, 25% and 15% of the Company's sales for the three months ended March 31, 2011. Comparatively, sales to the Company's three largest customers accounted for approximately 27%, 27% and 24% of the Company's sales for the three months ended March 31, 2010.

(Expressed in Canadian dollars)

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 March31, 2011	2010
Short-term employee benefits		
Employee salaries	**$ 151,875**	$ 125,000
Cash compensation to directors	**17,007**	20,376
Social security costs	**9,619**	8,679
Medical care costs	**1,303**	1,075
	179,804	155,130
Post-employment benefits		
Defined contribution pension plan	**3,797**	3,125
	3,797	3,125
Share-based payment	**464,995**	69,199
	464,995	69,199
Total key management remuneration	**$ 648,596**	**$ 227,454**

19. SUBSEQUENT EVENTS

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.

20. 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 months ended March 31, 2011, the comparative information presented in these interim consolidated financial statements for the three months ended March 31, 2010 and in the preparation of an opening IFRS consolidated statement of financial position at the date of transition.

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

(a) First-time adoption exemption applied

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

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

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

(Expressed in Canadian dollars)

20. FIRST-TIME ADOPTION OF IFRS (continued)

(b) Reconciliation of equity

		January 1, 2010			March 31, 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	20(f)(ii)	$ 111,368	186,897	**$ 298,265**	$ 758,823	205,540	**$ 964,363**	$ 1,275,747	213,280	**$ 1,489,027**
Accounts receivable		442,540	-	**442,540**	614,910	-	**614,910**	661,999	-	**661,999**
Inventory		404,309	-	**404,309**	516,196	-	**516,196**	469,744	-	**469,744**
Prepaid expenses and other assets		15,771	-	**15,771**	40,611	-	**40,611**	33,729	-	**33,729**
Total current assets		973,988	186,897	**1,160,885**	1,930,540	205,540.00	**2,136,080**	2,441,219	213,280.00	**2,654,499**
Non-current assets										
Property, plant and equipment		1,249,326	-	**1,249,326**	1,252,718	-	**1,252,718**	1,224,481	-	**1,224,481**
Restricted cash equivalents		50,000	-	**50,000**	50,000	-	**50,000**	50,000	-	**50,000**
Total non-current assets		1,299,326	-	**1,299,326**	1,302,718	-	**1,302,718**	1,274,481	-	**1,274,481**
Total Assets		$ 2,273,314	186,897	**$ 2,460,211**	$ 3,233,258	205,540.00	**$ 3,438,798**	$ 3,715,700	213,280.00	**$ 3,928,980**

(Expressed in Canadian dollars)

20. FIRST-TIME ADOPTION OF IFRS (continued)

(b) Reconciliation of equity (continued)

	Notes	January 1, 2010			March 31, 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
LIABILITIES AND EQUITY										
Liabilities										
Current liabilities										
Bank overdraft	20(f)(ii)	$ -	186,897	**$ 186,897**	$ -	205,540	**$ 205,540**	$ -	213,280	**$ 213,280**
Accounts payable and accrued liabilities		962,512	-	**962,512**	768,014	-	**768,014**	647,877	-	**647,877**
Current portion of long-term debt		39,978	-	**39,978**	40,309	-	**40,309**	40,630	-	**40,630**
Total current liabilities		1,002,490	186,897	**1,189,387**	808,323	205,540	**1,013,863**	688,507	213,280	**901,787**
Non-current liabilities										
Long-term debt		357,097	-	**357,097**	346,819	-	**346,819**	318,872	-	**318,872**
Total non-current liabilities		357,097	-	**357,097**	346,819	-	**346,819**	318,872	-	**318,872**
Total liabilities		1,359,587	186,897	**1,546,484**	1,155,142	205,540	**1,360,682**	1,007,379	213,280	**1,220,659**
Equity										
Share capital		60,648,625	-	**60,648,625**	62,163,358	-	**62,163,358**	64,841,468	-	**64,841,468**
Contributed surplus	20(f)(iii)	4,631,349	(1,012)	**4,630,337**	4,752,134	95	**4,752,229**	4,863,985	(1,895)	**4,862,090**
Deficit	20(f)(iii)	(64,366,247)	1,012	**(64,365,235)**	(64,837,376)	(95)	**(64,837,471)**	(66,997,132)	1,895	**(66,995,237)**
Total equity		913,727	-	**913,727**	2,078,116	-	**2,078,116**	2,708,321	-	**2,708,321**
Total liabilities and equity		$ 2,273,314	186,897	**$ 2,460,211**	$ 3,233,258	205,540	**$ 3,438,798**	$ 3,715,700	213,280	**$ 3,928,980**

(Expressed in Canadian dollars)

20. FIRST-TIME ADOPTION OF IFRS (continued)

(b) Reconciliation of equity (continued)

The balance sheet as at March 31, 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 March 31, 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.

(c) Reconciliation of comprehensive income for the three months ended March 31, 2010

	Notes	Previous Canadian GAAP	Effect of transition to IFRS	**IFRS**
REVENUE				
Product sales	20(f)(iv)	$ 737,962	$ (360,486)	**$ 377,476**
Contract Manufacturing	20(f)(iv)	-	360,486	**360,486**
Consulting services		327,879		**327,879**
		1,065,841	-	**1,065,841**
COST OF GOODS SOLD	20(f)(v)	582,945	4,414	**587,359**
GROSS PROFIT		482,896	(4,414)	**478,482**
Selling expenses		44,891	-	**44,891**
General and administrative expenses	20(f)(iii&v)	487,203	19,090	**506,293**
Product development and clinical trials expenses	20(f)(v)	353,115	5,066	**358,181**
Depreciation	20(f)(v)	27,463	(27,463)	**-**
		912,672	(3,307)	**909,365**
OPERATING LOSS		(429,776)	(1,107)	**(430,883)**
OTHER INCOME (EXPENSES)				
Interest income		114	-	**114**
Interest on long-term debt		(2,338)	-	**(2,338)**
Loss on foreign exchange		(39,129)	-	**(39,129)**
		(41,353)	-	**(41,353)**
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		(471,129)	(1,107)	**(472,236)**
LOSS PER SHARE				
Baic and diluted loss per share	20(f)(vi)	$ (0.02)	$ (0.00)	**$ (0.02)**

(Expressed in Canadian dollars)

20. FIRST-TIME ADOPTION OF IFRS (continued)

(d) Reconciliation of comprehensive income for the year-ended December 31, 2010

	Notes	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
REVENUE				
Product sales		$ 2,149,691	-	**$ 2,149,691**
Contract manufacturing		850,613	-	**850,613**
Consulting services		1,358,521	-	**1,358,521**
		4,358,825	-	**4,358,825**
COST OF GOODS SOLD	20(f)(v)	2,614,919	18,069	**2,632,988**
GROSS PROFIT		1,743,906	(18,069)	**1,725,837**
Selling expenses		190,743	-	**190,743**
General and administrative expenses	20(f)(iii&v)	2,165,070	82,711	**2,247,781**
Product development and clinical trials expenses	20(f)(v)	1,820,688	21,455	**1,842,143**
Amortization	20(f)(v)	123,118	(123,118)	**-**
		4,299,619	(18,952)	**4,280,667**
OPERATING LOSS		(2,555,713)	883	**(2,554,830)**
OTHER INCOME (EXPENSES)				
Interest income		466	-	**466**
Interest on long-term debt		(11,567)	-	**(11,567)**
Loss on disposal of property and equipment		(9,912)	-	**(9,912)**
Loss on foreign exchange		(54,159)	-	**(54,159)**
		(75,172)	-	**(75,172)**
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		$ (2,630,885)	$ 883	**$ (2,630,002)**
LOSS PER SHARE				
Basic and diluted loss per share	20(f)(vi)	$ (0.07)	$ 0.00	**$ (0.07)**

(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.

20. FIRST-TIME ADOPTION OF IFRSs (continued)

(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 20(f)(ii), 20 (f)(iv) and 20 (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 20 (f)(v)).

In addition, amounts previously reported under "Product sales" have been disaggregated into "Product sales" and "Contract manufacturing" under IFRS (see Note 20 (f)(iv)).

Amounts previously reported under "Cash and cash equivalents" have been disaggregated into "Cash" and "Bank overdraft" under IFRS (see note 20 (f)(ii)).

(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 and by $213,280 as at December 31, 2010 and amounts reported as "Bank overdraft" increased by $186,897 as at January 1, 2010 and by $213,280 as at December 31, 2010.

(iii) Share-based payments

Under Canadian GAAP, the fair value of share-based awards with graded vesting are calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting period, with actual forfeitures recognized as they occur.

Under IFRS, each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches with forfeitures estimated at the date of grant, and updated at each subsequent reporting date.

As a result of applying the IFRS 2 to awards not yet vested at the date of transition to IFRS, contributed surplus was decreased by $1,012 as at January 1, 2010(March 31, 2010: increased by $95; December 31, 2010: decreased by $1,895), and deficit decreased by $1,012 as at January 1, 2010 (March 31, 2010: increased by $95, December 31, 2010: decreased by $1,895); Share-based payment expenses in "General and administrative expenses" increased by $1,107, and decreased by $883 for the three months ended March 31, 2010 and for the year-ended December 31, 2010, respectively.

(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 $360,486 and amounts reported as "Contract manufacturing" increased by $360,486 for the three months ended March 31, 2010.

(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 $4,414, $17,983, and $5,066 respectively for the three months ended March 31, 2010, and increased by $18,068, $83,594, and $21,455 respectively for the year-ended December 31, 2010.

20. FIRST-TIME ADOPTION OF IFRSs (continued)

(f) Notes to the reconciliations (continued)

(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.

21. AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the three months ended March 31, 2011 (including comparatives) were approved by the Board of Directors on June 16, 2011.

(signed) ***Alexei Marko***

Alexei Marko, Director

(signed) ***Steven Rubin***

Steven Rubin, Director