Neovasc Inc.
Management's Discussion and Analysis
Form 51-102F1

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011

Q2 2012

FORM 51-102F1: MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis covers the unaudited interim consolidated financial statements of Neovasc Inc. (the "Company" or "Neovasc") for the three and six months ended June 30, 2012 and 2011.

The Management's Discussion and Analysis ("MD&A") of financial condition and results of operations should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the three and six months ended June 30, 2012 (included as part of Neovasc Inc.'s quarterly filing) as well as the audited consolidated financial statements and notes thereto and the MD&A for the fiscal year ended December 31, 2011 (collectively known as the "Financial Statements").

FORWARD-LOOKING STATEMENTS

This discussion and analysis, contains forward-looking statements that are not based on historical fact, including without limitation statements containing the words "believes", "may", "plan", "will", "estimate", "continue", "anticipates", "intends", "expects", and similar expressions, including the negative of such expressions. These statements are only predictions.

Forward-looking statements and information should be considered carefully. Undue reliance should not be placed on forward-looking statements and information as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements and information involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements and information will not occur and may cause actual results or events to differ materially from those anticipated in such forward-looking statements and information. The assumptions made by Neovasc include the ability of the Company to obtain and enforce timely patent protection for its technologies, the development of products; the timing of receipt of regulatory approvals; the sufficiency of budgeted expenditures in carrying out planned activities; and the availability and cost of labour and services (see 'Risks and Uncertainties').

More particularly and without limitation, this discussion and analysis contains forward-looking statements and information concerning the potential of Neovasc and the timing of market acceptance of the Company's technology products.

There are also other factors that may cause the actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements and information. Such factors include, among others, the stage of development, additional capital requirements, the impact of the global economic downturn, the ability to develop, manufacture and commercialize its products in a cost-effective manner, the ability to integrate newly-acquired businesses and the ability to protect Neovasc's intellectual property ('IP').

Neovasc disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements or information contained herein to reflect future results, events or developments, except as required by law.

All financial information is prepared in accordance with International Financial Reporting Standards ("IFRS") and is expressed in Canadian dollars.

Date: August 9, 2012

OVERVIEW

Description of the Business

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.

Neovasc's business operations started in March 2002, with the acquisition of Neovasc Medical Inc. ("NMI") (formerly PM Devices Inc.). NMI manufactures a line of collagen based surgical patch products made for use in cardiac reconstruction and vascular repair procedures as well as other surgeries. The products are made from chemically treated bovine and equine pericardial tissue.

In May 2003, Neovasc acquired Angiometrx Inc. ("ANG"). ANG developed a technology called the "Metricath® System," a catheter-based device that allows clinicians to measure artery and stent size and confirm stent deployment during interventional treatment of coronary and peripheral artery disease. In 2009, Neovasc ceased all activities related to Metricath.

In July 2008, Neovasc acquired two pre-commercial vascular device companies based in Israel: Neovasc Medical Ltd. ("Neovasc Medical") and B-Balloon Ltd. ("B-Balloon"). Neovasc Medical had developed and owned IP related to a novel catheter-based treatment for refractory angina, a debilitating condition resulting from inadequate blood flow to the heart muscle. Refractory angina affects millions of patients and at present there is no effective cure. B-Balloon had developed certain products intended to solve problems encountered by physicians when attempting to place vascular stents at locations where an artery branches from the aorta (the "ostium") or where an artery splits into multiple branches (a "bifurcation"). Currently Neovasc is not developing any of the B-Balloon technologies and is focusing its later stage product development efforts on the Neovasc Medical treatment for refractory angina.

In 2009, Neovasc started initial activities to develop novel technologies for catheter-based treatment of mitral valve disease. Based on the early positive results of these activities, the Company launched a program to develop the Tiara transcatheter mitral valve.

Product Portfolio

Peripatch Products

Neovasc manufactures the *PeriPatch*™("Peripatch") line of advanced biological tissue products that are manufactured from pericardium, which is the protective sac that surrounds the heart of an animal. Neovasc uses its proprietary processes to convert raw pericardial tissue from animal sources into sheets of implantable tissue that can be used as a reinforcement during surgery (for example, to patch a hole in an artery or to help repair a hernia) or that can be incorporated into third-party medical devices (for example, for use as the material for artificial heart valve leaflets or as a covering on a vascular stent). Peripatch tissue retains the mechanical characteristics of natural tissue and is readily incorporated into the body without rejection. Neovasc's Peripatch material was originally developed to fabricate artificial heart valves and has a 20-year history of successful implantation for heart valve and other surgical applications. Peripatch tissue can be manufactured to meet the mechanical and biological characteristics required for a wide variety of applications, such as surgical reinforcement patches or aortic heart valve leaflets.

The product line includes: the *PeriPatch™ Sheet, and PeriPatch™ EQ Sheet,* which are rectangular patches made from bovine (cow) or equine (horse) tissue, applied as internal bandages to repair weak or damaged organs or vessels. These are typically supplied sterile to customers who then use the sheets in surgical procedures.

The Company also provides a range of custom Peripatch products to industry customers for incorporation into their own products. These include Peripatch tissue fabricated from bovine, equine and porcine sources and offered in a wide variety of shapes and sizes. Neovasc works closely with its industry customers to develop and supply tissue to meet their specific needs. This often includes providing tissue in custom shapes or molded to 3-D configurations. The Company also provides product development and specialized manufacturing services related to Peripatch tissue-based products such as transcatheter heart valves.

Regulatory Status
The Peripatch Sheets made from bovine tissue are cleared for sale in the United States, the European Union and Canada. The Peripatch EQ Sheets made from equine tissue are approved for sale in the European Union and in Canada. A number of third-party products which incorporate Peripatch tissue are approved for sale or have pending approvals in various markets. There is no assurance that these approvals for third-party products will be obtained.

Distribution
Certain sizes of sterile Peripatch and Peripatch EQ Sheets for surgical repair, specifically "strips" which are used primarily for vascular reconstruction procedures, are distributed exclusively by LeMaitre Vascular (Boston, MA) in the United States, Europe and other markets. Non-strip sizes of Peripatch Sheets for surgical repair are distributed by LeMaitre Vascular as well as a number of other independent distributors in Europe and elsewhere.

Distribution of custom Peripatch tissue products to industry customers is handled directly by Neovasc through its business and product development group.

Neovasc Reducer
The Neovasc Reducer™ (the "Reducer") is a treatment for patients with refractory angina. Refractory angina patients have severe, debilitating chest pain due to insufficient blood supply to the heart muscle, or myocardium, which is not amenable to revascularization. The pain associated with refractory angina can make it difficult for patients to engage in routine activities, such as walking or climbing stairs. Using a simple catheter-based procedure, the Reducer is implanted in the coronary sinus, the major blood vessel that sends de-oxygenated blood from the heart muscle back to the systemic circulation. The Reducer has been clinically demonstrated to provide significant relief of chest pain in refractory angina patients. There are approximately 1,000,000 new patients each year in the United States and Europe with recurrent angina who are potential candidates for the Reducer, either because they cannot be revascularized or because they are otherwise poorly managed using conventional medical therapies. These patients represent an annual market opportunity of over $3 billion for the Reducer product. The initial target market for the Reducer product is patients presenting with refractory angina with no other available treatment options. Once physicians have adopted Reducer for use in these refractory patients, it is expected that there will be a natural spillover into the broader recurrent angina market, which represents a substantially larger patient population.

The Reducer is an hourglass-shaped, balloon-expandable, stainless steel, bare metal "stent-like" device, which is implanted in the coronary sinus, creating a restriction in venous outflow from the myocardium. It is implanted using conventional percutaneous techniques. The Reducer is provided sterile and pre-loaded on a balloon catheter system. The system is 9F sheath compatible and operates over a .035" guidewire. The implantation procedure is quick and requires minimal training. Once guidewire access to the coronary sinus is achieved, implantation typically takes less than 10 minutes.

Following implantation, the Reducer is incorporated into the endothelial tissue and creates a permanent (but reversible) narrowing in the coronary sinus. The coronary sinus is narrowed from a typical diameter of 10-12mm to approximately 3mm at the site of implantation. This narrowing slightly elevates the venous outflow pressure, which restores a more normal ratio of epicardial/endocardial blood flow between the outer and inner layers of the ischemic areas of the heart muscle. This results in improved perfusion of the endocardium, which helps relieve ischemia and chest pain. The physiological mechanism behind this effect is well documented in medical literature.

The clinical utility of this approach is demonstrated by a number of analogous approaches used in the past that achieved excellent clinical outcomes for angina patients by constricting or intermittently blocking the coronary sinus to improve perfusion to the heart muscle. However, these therapies required the use of highly invasive surgery or leaving a catheter in the heart for a prolonged period, making them impractical or clinically unacceptable for use in modern medical practice. The Reducer was developed to deliver this therapy in a safe, simple and effective manner via a catheter that is consistent with contemporary medical practice.

The Reducer has demonstrated excellent results in multiple animal studies and in a clinical trial of 15 patients suffering from chronic refractory angina who were followed for three years after implantation. The six-month results from this clinical trial were published in the *Journal of the American College of Cardiology* and three-year follow-up data was presented at the annual scientific meeting of the American College of Cardiology in March 2010. In this clinical trial, implantation of the Reducer resulted in significant clinical improvements in stress test and perfusion measurements, as

well as in overall quality of life in the majority of the patients. These improvements were maintained for the three years of the study, which also indicated that the Reducer appeared safe and well tolerated in these patients.

Regulatory Status
The Reducer is approved for sale in Europe having received CE mark designation in November 2011. In preparation for product launch, Neovasc has completed development of the commercial-generation Reducer and the product is currently being transferred to commercial scale manufacture. The Company is presently conducting a clinical trial named "COSIRA" (**Co**ronary **Si**nus Reducer for Treatment of **R**efractory **A**ngina) that is expected to provide data to support broad commercialization of the Reducer product. COSIRA is a double-blinded, randomized, sham controlled, multicentre trial of approximately 124 patients with an expected eight to 10 clinical investigation sites. Patient enrollment is expected to be completed during 2012. The Company has also initiated clinical registries in Europe and Israel to collect additional clinical data from patients treated with the Reducer. Data from the COSIRA trial and the patient registries is expected to provide critical support for adoption and use of the Reducer product in Europe. Neovasc is presently developing a US regulatory approval strategy that will address the requirement for a larger randomized clinical trial, which is mandatory in the US. US marketing approval is expected in about four to five years. There is no assurance that US regulatory approval will be granted in the time frame anticipated by management, or granted at any time in the future.

Neovasc Tiara
In Q2 2011 the Company formally initiated a new project to develop the Neovasc Tiara™ ("Tiara"), a product for treating mitral valve disease. The Tiara product is in preclinical development to provide a minimally invasive transcatheter device for the millions of patients who experience mitral regurgitation as a result of mitral heart valve disease. Mitral regurgitation is often severe and can lead to heart failure and death. Unmet medical need in these patients is high. Currently, conventional surgical treatments are only appropriate for about 20% of these patients since the majority are too old or frail to undergo conventional valve replacement procedures. There are approximately four million patients suffering with significant mitral regurgitation in the US. The Tiara product is an early stage, preclinical program and prototype devices are currently undergoing evaluation in animal and bench models. Neovasc believes it has developed distinctive solutions to the difficulties of developing a safe and effective transcatheter mitral valve device, and early results have been promising. Nonetheless, many challenges remain.

Additional Products and Third-Party Sales
Neovasc provides consulting and original equipment manufacturing services to other medical device companies when these services fall within the scope of its expertise and capabilities. These activities are substantially focused on providing specialized development and manufacturing services for industry customers who incorporate the Company's Peripatch tissue materials into their vascular device products such as heart valves. The goal of these activities is to drive near-term revenues as well as support development of a long-term revenue stream through the ongoing provision of tissue and manufacturing services to customers with commercially successful device products that incorporate Neovasc tissue. Revenue earned from various contract agreements varies throughout the year depending on customer needs.

Regulatory Affairs and Clinical Trials
The Company is presently in the process of obtaining the clinical trial data required to support European commercial launch of the Reducer product. The COSIRA trial which commenced in September 2010 is expected to generate data to support commercialization, as well as additional regulatory applications. The Company is also enrolling patients receiving the Reducer product in clinical registries in Europe and Israel, with the expectation that data from these registries will support wider adoption and use of the Reducer in refractory angina patients.

Product Development
Product development at the Company is presently focused on completing commercialization of the Reducer product as well as early stage development work on the Tiara product. The Company is also undertaking product development work under contract for third-party groups. These third-party projects are typically focused on supporting the development of products that incorporate Neovasc's Peripatch tissue. These activities generate both near-term revenues from consulting activities for Neovasc and also are expected to drive longer-term growth as a result of the revenues that will result from future commercial sales of new products incorporating the Peripatch tissue, as well as the related manufacturing services the Company will provide for these customers once their products reach the market. The Company is also investigating other potential new internal projects that leverage the Company's existing technologies, infrastructure and expertise.

TRENDS, RISKS AND UNCERTAINTIES

The Company has incurred operating losses of $1,516,355 and $2,781,646 for the three and six months ended June 30, 2012 (2011: $1,015,785 and $1,989,239) and has a deficit of $73,774,031 at June 30, 2012 compared to a deficit of 70,992,385 as at December 31, 2011. 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 current economic crisis that has significantly tightened the credit and equity markets may result in required funds not being available to the Company at the time needed or on terms acceptable to the Company and may also reduce demand for the Company's products.

Neovasc has a limited operating history which makes it difficult to predict how its business will develop or what its future operating results will be. The Company has a history of fiscal losses since its inception and will need to generate significantly greater revenues than it has to date to achieve and maintain profitability. There is no certainty of future profitability, and results of operations in future periods cannot be predicted based on results of operations in past periods. Generally, the securities of the Company should be considered a highly speculative investment.

Neovasc is subject to risks and uncertainties associated with operating in the life sciences industry and as a company engaged in significant development, regulatory, production and commercialization activity. Neovasc cannot anticipate or prevent all of the potential risks to its success, nor predict the impact of any such risk. To the extent possible, management implements strategies aimed at reducing or mitigating risks and uncertainties associated with its business.

Operating risks include but are not limited to: market acceptance of the Company's technology and products; the Company's ability to obtain and enforce timely patent protection of its technology and products; the Company's ability to develop, manufacture and commercialize its products cost-effectively and according to the regulatory standards of numerous governments; the competitive environment and impact of technological change and/or product obsolescence; the continued availability of capital to finance the Company's activities; the Company's ability to conduct and complete successful clinical trials; the Company's ability to garner regulatory approvals for its products in a timely fashion; the Company's ability to attract and retain key personnel, effectively manage growth, and smoothly integrate newly acquired businesses or technologies; limitations on third-party reimbursement; instances of product or third-party liability; dependence on a single supplier for some products; animal disease or other factors affecting the quality and availability of raw materials; conflicts of interest among the Company's directors, officers, promoters and members of management; fluctuations in the values of relative foreign currencies; volatility of the Company's share price; fluctuations in quarterly financial results; unanticipated expenses; changes in business strategy; impact of any negative publicity; general political and economic conditions; and Acts of God and other unforeseeable events, natural or human-caused.

FOREIGN OPERATIONS

The majority of the Company's revenues are derived from product sales in the United States and Europe, primarily denominated in United States dollars and Euros, while the majority of the Company's costs are denominated in Canadian dollars. The Company expects that foreign currency denominated international sales will continue to account for a significant portion of its revenues. Consequently, a decrease in the value of a relevant foreign currency in relation to the Canadian dollar will have an adverse effect on the Company's results of operations, with lower than expected revenue amounts and gross margins being reported in the Company's Canadian dollar financial statements. In addition, any decrease in the value of the United States dollar or Euro occurring in between the time a sale is consummated and the time payment is received by Neovasc will lead to a foreign exchange loss being recognized on the foreign-currency denominated trade account receivable. The fluctuation of foreign exchange may impose an adverse effect on the Company's results of operations and cash flows in the future. Additionally, Neovasc may be materially and adversely affected by increases in duty rates, exchange or price controls, repatriation restrictions, or other restrictions on foreign currencies. The Company's international operations are subject to certain other risks common to international operations, including, without limitation: government regulations; import restrictions and, in certain jurisdictions, reduced protection for the Company's intellectual property rights.

Foreign currency translation gains and losses arising from normal business operations are credited to or charged to operations in the period incurred. To date, Neovasc has not entered into any foreign exchange forward contracts.

SELECTED QUARTER FINANCIAL INFORMATION

The following discussion should be read in conjunction with the unaudited interim consolidated financial statements for the three and six months ended June 30, 2012 and 2011.

DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

Results for the three and six months ended June 30, 2012 and 2011 follow:

Loss

The loss for the three and six months ended June 30, 2012 was $1,516,355 and $2,781,646, or $0.03 and $0.06 basic and diluted loss per share, respectively, as compared with a loss of $1,015,785 and $1,989,239 or $0.02 and $0.05 basic and diluted loss per share for the comparable periods in 2011. The increase in the loss incurred in the second quarter and in the first six months of 2012 as compared to the same periods in 2011 can be substantially explained by an increase in non-cash share-based payments of $206,924 and $398,824, respectively, and an increase in product development and clinical trial activities of $320,756 and $666,771, respectively. In 2011 and 2012, the officers and directors of Neovasc were awarded a fixed number of options under the Company's established remuneration and incentive plans. While the actual number of options granted in each year was equivalent, under the Black Scholes model used to value the options, the significantly higher price of the Company's shares in 2012 produced a higher overall valuation of the options issued, and therefore resulted in a higher non-cash charge to the income statement in 2012.

Revenues increased 86% year-over-year to $1,634,608 for the three months ended June 30, 2012, from $879,405 for the same period in 2011. For the six months ended June 30, 2012, revenues were $3,347,599, compared to revenues of $2,049,325 for the same period in 2011, representing an increase of 63%.

Product sales for the three months ended June 30, 2012 were $742,226, compared to product sales of $178,412 in the same period of 2011, representing an increase of 316%. Product sales for the six months ended June 30, 2012 were $1,451,868, compared to product sales of $729,093 in the same period of 2010, representing an increase of 99%. The increase in product sales primarily reflects higher demand from one of Neovasc's largest customers, who distributes the Company's surgical strips and patches and is achieving higher penetration in both the North American and European markets.

Contract manufacturing revenues were $458,359 in the second quarter of 2012, compared to $234,960 in the comparable period in 2011, an increase of 95%. Contract manufacturing revenues were $799,806 in the six months ended June 30, 2012, compared to $525,211 in the comparable period of 2011, an increase of 52%. The increase in contract manufacturing revenues reflects the Company's success in attracting more contract manufacturing customers as well as larger orders from existing customers as they advance their new product development programs.

Revenues from consulting services for the three months ended June 30, 2012 were $434,023, compared to consulting service revenues of $466,033 in the same period in 2011, representing a decrease of 7%. Revenues from consulting services for the six months ended June 30, 2012 were $1,095,925, compared to consulting service revenues of $795,021 in the same period in 2011, representing an increase of 38%. The Company's consulting service revenues are contract-driven and they can fluctuate from quarter to quarter and year to year as current projects are completed and new projects start.

Cost of Goods Sold

The cost of goods sold for the three and six months ended June 30, 2012 were $994,809 and $1,874,081, respectively, as compared to $410,957 and $1,076,733 in the same period in 2011. The overall gross margin was 39% for the second quarter of 2012 and 44% for the six months ended June 30, 2012, compared to 53% and 47% gross margin in the same periods in 2011. Gross margin has been impacted by additional costs that Neovasc has incurred as it continues to transition away from surgical strip and patch manufacture into contract manufacture of transcatheter valves and related devices.

Expenses

Total expenses for the three and six months ended June 30, 2012 were $2,158,752 and $4,249,768, respectively, as compared to $1,480,163 and $2,924,003 in the same periods in 2011, representing an increase of 46% and 45%, respectively. Of these expenses, 40% of the increase in the second quarter and 38% of the increase in the first half of

2012 can be explained by an increase in non-cash share-based payments, as discussed in the "Loss" section. Net of these non-cash share-based payments, total expenses increased $405,071 and $824,573 between the comparable quarter and half-year periods in 2012 and 2011, substantially due to an increase of $320,756 and $666,771, respectively, in clinical trial and product development expenses for the Company's two new product development programs.

Selling expenses were $48,783 and $92,010 for the three and six months ended June 30, 2012, respectively, compared to $49,842 and $97,088 in the comparable periods in 2011. The Company is continuing to maintain relatively constant and modest selling and marketing costs while it focuses on growing its business-to-business revenue streams.

General and administrative expenses were $943,467 and $2,157,272 for the three and six months ended June 30, 2012, respectively, as compared to $624,262 and $1,562,992 in the comparable periods of 2011, representing an increase of 51% and 38%, respectively. The increase in general and administrative expenses in the three and six months ended June 30, 2012 was primarily due to an increase in non-cash share-based payments of $206,924 and $398,824, respectively, as discussed in the "Loss" section and an increase of $83,175 in regulatory affairs expenses related to the transition to a new "notified body" regulatory consultant in Europe during the first quarter of 2012.

Product development and clinical trial expenses were $1,166,502 and $2,000,486 for the three and six months ended June 30, 2012, respectively, as compared to $806,059 and $1,263,923 in the comparable periods of 2011, representing an increase of 45% and 58%, respectively. The increase in year-over-year research and development costs is principally due to increased investment in the Company's two major new product initiatives: the COSIRA clinical trial for the Neovasc Reducer and the preclinical Neovasc Tiara mitral valve development program.

Quarterly Information

The following is a summary of selected unaudited financial information for the eight fiscal quarters to June 30, 2012:

	June 30, 2012 (IFRS)	March 31, 2012 (IFRS)	December 31, 2011 (IFRS)	September 31, 2011 (IFRS)
REVENUE				
Product sales	$ 742,226	$ 709,642	$ 665,034	$ 391,197
Contract manufacturing	458,359	341,447	755,770	528,467
Consulting services	434,023	661,902	359,585	506,383
	1,634,608	1,712,991	1,780,389	1,426,047
COST OF GOODS SOLD	994,809	879,272	1,179,364	936,879
GROSS PROFIT	639,799	833,719	601,025	489,168
EXPENSES				
Selling	48,783	43,227	47,113	48,154
General and administrative	943,467	1,213,805	790,900	774,829
Product development and clinical trials	1,166,502	833,984	733,055	627,790
	2,158,752	2,091,016	1,571,068	1,450,773
OPERATING LOSS	(1,518,953)	(1,257,297)	(970,043)	(961,605)
OTHER INCOME (EXPENSE)	2,598	(7,994)	(9,387)	70,098
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	$ (1,516,355)	$ (1,265,291)	$ (979,430)	$ (891,507)
BASIC AND DILUTED LOSS PER SHARE	$ (0.03)	$ (0.03)	$ (0.02)	$ (0.02)

	June 30, 2011 (IFRS)	March 31, 2011 (IFRS)	December 31, 2010 (IFRS)	September 30, 2010 (IFRS)
REVENUE				
Product sales	$ 178,412	$ 550,681	$ 657,418	$ 539,478
Contract manufacturing	234,960	290,251	318,833	99,878
Consulting services	466,033	328,988	342,313	375,144
	879,405	1,169,920	1,318,564	1,014,500
COST OF GOODS SOLD	410,957	665,776	860,053	568,536
GROSS PROFIT	468,448	504,144	458,511	445,964
EXPENSES				
Selling expenses	49,842	47,246	55,731	40,763
General and administrative expenses	624,262	938,730	548,519	496,348
Product development and clinical trials expenses	806,059	457,864	614,889	330,393
	1,480,163	1,443,840	1,219,139	867,504
OPERATING LOSS	(1,011,715)	(939,696)	(760,628)	(421,540)
OTHER INCOME (EXPENSE)	(4,070)	(33,758)	(61,279)	1,023
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	$ (1,015,785)	$ (973,454)	$ (821,907)	$ (420,517)
BASIC AND DILUTED LOSS PER SHARE	$ (0.02)	$ (0.02)	$ (0.02)	$ (0.01)

Product sales have been cyclical in nature from quarter to quarter. The slightly unpredictable nature of revenues is expected as third party development projects are difficult to predict and may start or stop suddenly depending on the needs of the client.

Selling expenses have remained relatively consistent from 2010 as efforts have been focused on servicing our existing customers. General and administrative expense reached a peak in the first quarter of 2012 mainly due to stock-based compensation expense of $632,380 for options granted and vested immediately in the quarter. Product development and clinical trial costs peaked in the second quarter of 2012 due to the COSIRA clinical trial and the preclinical Tiara project.

DISCUSSION OF LIQUIDITY AND CAPITAL RESOURCES

Neovasc finances its operations and capital expenditures with cash generated from operations, lines of credit, long-term debt and equity financings. At June 30, 2012, the Company had cash and cash equivalents of $1,124,490, as compared to cash and cash equivalents of $435,766 at June 30, 2011. In addition, at June 30, 2012, the Company had investments of $1,504,258 (June 30, 2011: $nil).

At June 30, 2012 the Company had working capital of $2,715,971 as compared to working capital of $647,960 at June 30, 2011. Cash used in operating activities was $620,610 and $1,228,407 for the three and six months ended June 30, 2012, as compared to $656,339 and $931,257 for the same periods in 2011. The decrease in cash used in the second quarter of 2012 compared to the same period of 2011 is principally due to the fact that the increase in operating expenses was offset by an increase in cash generated by working capital items. In the second quarter of 2012, operating expenses were $950,460, compared to $723,381 for the same period in 2011, as more expenses were incurred in research and development activities. Working capital items generated cash of $322,017 in the second quarter of 2012, as inventories stabilized and required less cash to maintain, while in the same period of 2011 working capital items generated just $69,921 in cash. The increase in cash used in the first six months of 2012 compared to the same period of 2011 is principally due to an increase in operating expenses, as more expenses were incurred in research and development activities. In the first six months of 2012, operating expenses were $1,437,943 compared to $1,141,074 for the same period in 2011.

In the second quarter of 2012 a $1,008,455 investment in GICs maturing on July 16, 2012 was re-classified as cash equivalents. Net cash invested in capital assets was $98,535 and $192,441 for the three and six months ended June 30, 2012, respectively, compared to net cash invested in capital assets of $19,514 and $107,406 for the same periods in 2011. During the first six months of 2012 and 2011, the Company continued to invest capital to expand its clean room and manufacturing facilities and research and development capabilities.

Net cash provided by financing activities was $145,130 and $140,796 for the three and six months ended June 30, 2012, compared to cash used by financing activities of $140,878 and $14,598 for the same periods of 2011 as the Company paid off its overdraft in 2011 and then utilized this facility in 2012. On January 17, 2011 and February 15, 2011, Neovasc issued 197,922 and 128,371 common shares, respectively, upon the exercise of warrants issued as part of the Company's February 2010 financing. Proceeds from the exercise of the 326,293 warrants amounted to $130,517.

SUBSEQUENT EVENTS

No significant subsequent events.

OUTSTANDING SHARE DATA

As at June 30, 2012, the Company had 45,798,244 common voting shares issued and outstanding. Further, the following securities are convertible into common shares of the Company: 7,676,333 stock options with a weighted average price of $0.83 and 2,360,250 share purchase warrants with a weighted average exercise price of $1.25. The fully diluted share capital of the Company at June 30, 2012 is 55,834,827.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

RELATED PARTY TRANSACTIONS

There were no transactions with related parties during the three and six months ended June 30, 2012 and 2011, other than those compensation based payments disclosed in Note 19 of the financial statements.

PROPOSED TRANSACTIONS

The Company is not party to any transaction requiring additional disclosure.

CONTROLS AND PROCEDURES

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO), in cooperation with the other members of senior management and directors, are responsible for the Company's disclosure policy. The effectiveness of the Company's internal disclosure controls have been evaluated by the CEO and the CFO, and they have concluded that the Company's control procedure provides reasonable assurance that (i) information required to be disclosed by the Company in its annual and interim reports or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods, and (ii) material information regarding the Company is accumulated and communicated to the Company's management, including its CEO and CFO, in a timely manner.

The CEO and CFO are responsible for the design of internal controls over financial reporting in order to provide reasonable assurance that the Company's financial reporting is reliable and that financial statements prepared for external purposes are prepared in accordance with International Financial Reporting Standards ("IFRS") and for the safeguarding of Company assets. The CEO and CFO are aware that internal controls relating to the accounting function could be strengthened by adhering to a strict policy of segregating the duties of accounting staff to reduce the risk of unauthorized journal entries being made or a misappropriation of cash. At the Company's current size, adoption of such a policy is impractical. To reduce these risks, the CFO reviews bank reconciliation statements and performs periodic reviews of non-standard entries after they have been recorded; all cheque payments require two signing authorities. The CEO periodically reviews recorded financial information. The CEO and CFO believe that these reviews are an adequate compensating control; accordingly, there are no plans to remediate this internal control weakness. No material changes were made to the Company's system of internal controls relating to financial reporting during the three and six months ended June 30, 2012.