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

FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010

Q4
2011

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

This discussion and analysis covers the audited consolidated financial statements of Neovasc Inc. (the "Company" or "Neovasc") for the year ended December 31, 2011 and 2010.

The Management's Discussion and Analysis ("MD&A") of financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2011 (included as part of Neovasc Inc.'s annual filing).

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: April 25, 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. ("PMD")). 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 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 these 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 the United States, 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 ten 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 modern 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 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 will 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 ten clinical investigation sites. Patient enrollment is expected to be complete by mid-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 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 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 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 project 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 launch of the Reducer product. The COSIRA trial which commenced in September 2010 is expected to support this as well as other regulatory applications. The Company is also enrolling patients using the Reducer product in clinical registries in Europe and Israel, with the expectation that data from these registries will support 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-parties. 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 sales of new products incorporating 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 $3,860,176 for the year ended December 31, 2011 (2010: $2,701,304) and has a deficit of $70,992,385 at December 31, 2011 compared to a deficit of 67,132,209 as at December 31, 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 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 ANNUAL FINANCIAL INFORMATION

The Company has adopted International Financial Reporting Standards ('IFRS') from January 1, 2011. The audited consolidated financial statements for the year ended December 31, 2011 are Neovasc's first financial statements prepared in accordance with IFRS. The section "FIRST-TIME ADOPTION OF IFRS" includes the significant accounting policies that the Company adopted under IFRS, a reconciliation of the January 1, 2010 and December 31, 2010 Canadian GAAP Statements of Financial Position to IFRS, and a reconciliation of comprehensive loss for the year ended December 31, 2010. The comparative data has been retroactively changed in accordance with the transition rules.

The following discussion should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2011 and 2010.

DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

Results for the year ended December 31, 2011 and 2010 follow:

Loss

The loss for the year ended December 31, 2011 was $3,860,176, or $0.09 basic and diluted loss per share, as compared with a loss of $2,701,304 or $0.08 basic and diluted loss per share for the comparable period in 2010. The increase in the loss incurred in 2011 can be substantially explained by an increase in non-cash share-based payments of $1,118,624. In 2010 and 2011 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 2011 produced a higher overall valuation of the options issued and therefore resulted in a higher charge to the income statement in 2011. In addition, the Company granted options to a company to provide strategic advisory services over the next four years in August 2011, which contributed to the increase in non-cash share-based payments during 2011.

Revenues

Revenues increased 21% year-over-year to $5,255,761 for the year ended December 31, 2011, from $4,358,825 for the same period in 2010.

Product sales for the year ended December 31, 2011 were $1,785,324, compared to product sales of $2,149,691 in the same period of 2010, representing a decrease of 17%. The decrease in product sales partly reflects a temporary suspension in sales of Neovasc's tissue products to one customer as a result of a change in product specifications that required review and approval internally and from the appropriate regulatory authorities. The requisite approvals have now been received and sales have resumed to that customer.

Contract manufacturing revenues were $1,809,448 in 2011, compared to contract manufacturing revenues of $850,613 in the comparable period in 2010, an increase of 113%. 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, particularly in the area of transcatheter aortic valve replacement.

Revenues from consulting services for the year ended December 31, 2011 were $1,660,989, compared to consulting service revenues of $1,358,521 in the same period in 2010, representing an increase of 22%. Neovasc'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 year ended December 31, 2011 were $3,192,976, as compared to $2,632,988 in the same period in 2010. The overall gross margin for 2011 was 39%, compared to 40% gross margin in the same period in 2010.

Neovasc continues exploring a number of initiatives aimed at strengthening margins going forward, including implementing further manufacturing efficiencies, reviewing pricing strategies for certain products and focusing on further expanding sales of higher margin product lines such as custom tissue for transcatheter heart valves and related manufacturing services.

Expenses
Total expenses for the year ended December 31, 2011 were $5,945,844, as compared to $4,351,969 in the same period in 2010, representing an increase of 37%. The majority of the increase 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 $478,946 between the comparable periods in 2011 and 2010, substantially due to an increase of $470,944 in clinical trial and product development expenses for Neovasc's two product development programs.

Selling expenses were $192,355 for the year ended December 31, 2011, compared to $190,743 in the comparable period in 2010. 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 $3,128,721 for the year ended December 31, 2011, as compared to $2,319,083 in the comparable period of 2010, representing an increase of 35%. The increase in general and administrative expenses was due to an increase in non-cash share-based payments, as discussed in the "Loss" section. Other expenses have remained equivalent, increasing by 3% year-over-year.

Research and development costs, including product development and clinical trial expenses were $2,624,768 for the year ended December 31, 2011, as compared to $1,842,143 in the comparable period of 2010, representing an increase of 42%. The increase in year-over-year research and development costs is principally due to increased investment in Neovasc's two major new product initiatives; the COSIRA clinical trial for the Neovasc Reducer and the development program for the Neovasc Tiara mitral valve program.

Result for the quarter ended December 31, 2011 and 2010 follow:

Loss
The loss for the quarter ended December 31, 2011 was $979,430, or $0.02 basic and diluted loss per share, as compared with a loss of $821,907 or $0.02 basic and diluted loss per share for the comparative period in 2010. The increase in the loss incurred in the quarter ended December 31, 2011 as compared to the comparable period in 2010 can be explained by an increase in non-cash share-based payments of $333,982.

Revenues
Revenues for the quarter ended December 31, 2011 were $1,780,389 compared to $1,318,564 for the same period in 2010, representing an increase of 35%, mostly due to a year-over-year increase in contract manufacturing revenue.

Cost of Goods Sold
The cost of goods sold for the quarter ended December 31, 2011 were $1,179,364, as compared to $860,053 in the same period in 2010. The costs rose in line with the increase of sales. In both the quarters ended December 31, 2011 and 2010 the gross margin was lower than the annual average at 34% and 35% respectively as year-end inventory adjustments were made.

Expenses
Total expenses for the quarter ended December 31, 2011 were $1,571,068, as compared to $1,219,139 in the same period in 2010, an increase of 29%. The increase can be explained by an increase in non-cash share-based payments, as discussed in the "Loss" section.

Selling expenses were $47,113 for the quarter ended December 31, 2011, compared to $55,731 in the comparable period in 2010. General and administrative expenses were $790,900 for the year ended December 31, 2011, as compared to $548,519 in the comparable periods of 2010, representing an increase of 44%. The increase in general and administrative expenses was principally due to an increase in non-cash share-based payments, as discussed in the "Loss" section.

Research and development costs, including product development and clinical trial expenses were $733,055 for the quarter ended December 31, 2011, as compared to $614,889 in the comparable period of 2010, representing an increase of 19%. The increase in year-over-year research and development costs is principally due to increased investment in Neovasc's two major new product initiatives; the COSIRA clinical trial for the Neovasc Reducer and the development program for the Neovasc Tiara mitral valve program.

Annual Information

The following is a summary of selected financial information for the three fiscal years to December 31, 2011:

	2011	2010	2009
Sales	$ 5,255,761	$ 4,358,825	$ 3,000,047
Loss	(3,860,176)	(2,701,304)	(4,540,942)
Basic and diluted loss per share	(0.09)	(0.08)	(0.18)
Total assets	6,300,116	3,928,980	2,460,211
Total long-term liabilities	280,642	318,872	357,097
Cash dividend declared per share	$nil	$nil	$nil

Quarterly Information

The following is a summary of selected unaudited financial information for the eight fiscal quarters to December 31, 2011:

	December 31, 2011 (IFRS)	September 30, 2011 (IFRS)	June 30, 2011 (IFRS)	March 31, 2011 (IFRS)
REVENUE				
Product sales	$ 665,034	$ 391,197	$ 178,412	$ 550,681
Contract manufacturing	755,770	528,467	234,960	290,251
Consulting services	359,585	506,383	466,033	328,988
	1,780,389	1,426,047	879,405	1,169,920
COST OF GOODS SOLD	1,179,364	936,879	410,957	665,776
GROSS PROFIT	601,025	489,168	468,448	504,144
EXPENSES				
Selling	47,113	48,154	49,842	47,246
General and administrative	790,900	774,829	624,262	938,730
Product development and clinical trials	733,055	627,790	806,059	457,864
	1,571,068	1,450,773	1,480,163	1,443,840
OPERATING LOSS	(970,043)	(961,605)	(1,011,715)	(939,696)
OTHER INCOME (EXPENSE)	(9,387)	70,098	(4,070)	(33,758)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	$ (979,430)	$ (891,507)	$ (1,015,785)	$ (973,454)
BASIC AND DILUTED LOSS PER SHARE	$ (0.02)	$ (0.02)	$ (0.02)	$ (0.02)

	December 31, 2010 (IFRS)	September 30, 2010 (IFRS)	June 30, 2010 (IFRS)	March 31, 2010 (IFRS)
REVENUE				
Product sales	$ 657,418	$ 539,478	$ 575,320	$ 377,475
Contract manufacturing	318,833	99,878	71,415	360,487
Consulting services	342,313	375,144	313,185	327,879
	1,318,564	1,014,500	959,920	1,065,841
COST OF GOODS SOLD	860,053	568,536	617,040	587,359
GROSS PROFIT	458,511	445,964	342,880	478,482
EXPENSES				
Selling expenses	55,731	40,763	49,358	44,891
General and administrative expenses	548,519	496,348	728,109	546,107
Product development and clinical trials expenses	614,889	330,393	538,680	358,181
	1,219,139	867,504	1,316,147	949,179
OPERATING LOSS	(760,628)	(421,540)	(973,267)	(470,697)
OTHER INCOME (EXPENSE)	(61,279)	1,023	26,437	(41,353)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	$ (821,907)	$ (420,517)	$ (946,830)	$ (512,050)
BASIC AND DILUTED LOSS PER SHARE	$ (0.02)	$ (0.01)	$ (0.03)	$ (0.02)

Product sales have been cyclical in nature from quarter to quarter. The second quarter of 2011 saw a significant decrease in activity and purchasing over the summer months while in the fourth quarter of 2011 the Company recorded its highest revenues to date. The 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 customer.

Selling expenses have remained relatively consistent from 2010 as efforts have been focused on servicing our existing customers. General and administrative expenses peaked in the first and fourth quarters of 2011 mainly due to stock-based compensation expense. Product development and clinical trial costs also peaked in the second and fourth quarter of 2011 due to the COSIRA clinical trial and internal development expenses incurred on the Tiara project.

DISCUSSION OF LIQUIDITY AND CAPITAL RESOURCES

The Company finances its operations and capital expenditures with cash generated from operations, lines of credit, long-term debt and equity financings. At December 31, 2011, the Company had cash and cash equivalents of $2,404,510, as compared to cash and cash equivalents of $1,489,027 at December 31, 2010. In addition, at December 31, 2011 the Company had restricted cash and cash equivalents related to a security on long-term debt of US$40,000 (December 31, 2010: CAD$50,000 held as a guaranteed investment certificate) included in long-term assets, investments of $1,504,290 (December 31, 2010: $nil) and a bank overdraft facility of $nil (December 31, 2010: $213,280) included in current liabilities.

At December 31, 2011 the Company had working capital of $4,335,581 as compared to working capital of $1,752,712 at December 31, 2010. The increase in working capital during 2011 was predominantly due to the net impact of an increase in cash and investments from completion of a non-brokered private placement in August 2011; an increase in accounts receivable due to higher sales in the fourth quarter of 2011 as compared to the fourth quarter of 2010; and a decrease in accounts payable and accrued liabilities as old accounts were settled.

Cash used in operating activities was $2,012,409 for year ended December 31, 2011, as compared to $2,605,239 for the same period in 2010. The decrease in cash used for the year ended December 31, 2011, compared to the same period of 2010, is principally due to a small increase in cash used in operations offset by a decrease in working capital requirements. During the year ended December 31, 2011, cash used in operations was $2,056,882 compared to $1,976,651 for the comparative period in 2010 and working capital items provided cash of $49,246, while in the same period of 2010 working capital items absorbed cash of $617,487.

In 2011 the Company invested in $1,504,290 in longer term investments, as its cash and cash equivalents are sufficient to meet its obligations in the short-term. Net cash invested in capital assets was $165,545 for the year ended December 31, 2011, compared to net cash invested in capital assets of $108,185 for the same period in 2010. During 2011 the Company invested capital to expand its clean room and manufacturing facilities.

Net cash provided by financing activities was $4,597,727 for the year ended December 31, 2011, compared to cash provided by financing activities of $3,904,186 for the year ended December 31, 2010. 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. 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 warrants issued as part of the Company's April 2009 financing expired on April 23, 2010. 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. Proceeds from the exercise of the 326,293 warrants amounted to $130,517. On August 16, 2011, the Company completed a non-brokered private placement of 4,720,500 equity units at the price of $1.00 per unit for aggregate gross proceeds of approximately $4,720,500. Each unit consists of one common share of Neovasc stock and one-half of one common share purchase warrant of Neovasc stock. Each whole warrant entitles the holder thereof to purchase one common share of Neovasc stock at the exercise price of $1.25 per share for a period of two years after the closing date of the offering. Share issue costs were $42,864.

SUBSEQUENT EVENTS

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

OUTSTANDING SHARE DATA

As at December 31, 2011, the Company had 45,712,649 common voting shares issued and outstanding. Further, the following securities are convertible into common shares of the Company: 6,295,038 stock options with a weighted

average price of $0.67 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 December 31, 2011 is 54,367,937.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

RELATED PARTY TRANSACTIONS

There were no transactions with related parties during the years ended December 31, 2011 and 2010, other than those compensation based payments disclosed in Note 20 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 year ended December 31, 2011.

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

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

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.

Reconciliation of equity

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

The balance sheet as at December 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 December 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 reporting period of fiscal 2011.

Reconciliation of comprehensive loss for the year ended December 31, 2010

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

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.

Notes to the reconciliations

(i) Presentation differences

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

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

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

(ii) Bank overdraft

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

(iii) Share-based payments

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

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

(iv) Depreciation

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

(v) Basic and diluted loss per share

Basic and diluted loss per share in 2010 was $0.08 under IFRS compared to $0.07 under Canadian GAAP, due to the adjustment of $70,419 under IFRS.