



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

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

**Q3
2011**

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 nine months ended September 30, 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 Unaudited Interim Consolidated Financial Statements and notes thereto for the three and nine months ended September 30, 2011 (included as part of Neovasc Inc.'s quarterly 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: November 2, 2011

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 the 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.

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.

Regulatory Status

The Peripatch sheets made from bovine tissue are cleared for sale in the United States, Canada and Mexico. Peripatch sheets made from bovine pericardium sourced from Australia and New Zealand are cleared for sale in Europe. 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 and Europe. 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. The Company’s goal is to steadily increase its distribution reach in new target markets, while increasing market share in current markets.

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. 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 vascularized 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 “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 bare metal 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 that 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. 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. 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 data was presented at the ACC annual scientific meeting 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 an overall quality of life improvement in the majority of the patients.

Regulatory Status

The Reducer is not yet approved for sale. Neovasc has completed development of the commercial-generation Reducer and the product has been transferred to pilot manufacture. The Company is presently conducting a clinical trial named "COSIRA" (**C**oronary **S**inus Reducer for Treatment of **R**efractory **A**ngina) which will provide data to support CE mark of the product. CE mark will enable the Company to begin marketing Reducer for use in Europe. COSIRA is a double-blinded, randomized, sham controlled, multicentre trial of approximately 124 patients with an expected eight to ten investigation sites. Enrollment of patients at the first center began in September 2010. Enrollment is expected to be complete in the first half of 2012. There is no assurance that the CE mark will be granted in the time frame anticipated by management, or granted at any time in the future. Neovasc is presently developing a US regulatory approval strategy that will address the requirement for a larger randomized clinical trial that 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 initiated a new project to develop 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. 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 project is an early stage, preclinical project and prototype devices are currently undergoing evaluation in animal and bench models.

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 regulatory approval for the Reducer product. The COSIRA trial which commenced in September 2010 is expected to support this and other regulatory applications.

Product Development

Product development at the Company is presently focused on completing the development and commercialization of the Reducer product as well as early stage development work on the Tiara product. The Company is also undertaking a substantial volume of 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 Peripatch tissue products 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 potential new internal projects which leverage the Company's existing technologies, infrastructure and expertise. These new internal projects are at the proof-of-concept stage.

TRENDS, RISKS AND UNCERTAINTIES

The Company has incurred operating losses of \$891,507 and \$2,880,746 for the three and nine months ended September 30, 2011 (2010: \$406,944 and \$1,812,914) and has a deficit of \$69,875,983 at September 30, 2011 compared to a deficit of 66,995,237 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 which has significantly tightened the credit and equity markets may result in required funds not being available to the Company at the time required 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 of its future operating results. 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 Company has adopted International Financial Reporting Standards ('IFRS') from January 1, 2011. The Unaudited Interim Consolidated Financial Statements for the three and nine months ended September 30, 2011 are Neovasc's financial statements prepared under IFRS. The section "FIRST-TIME ADOPTION OF IFRS" includes the significant accounting policies that the Company adopted under IFRS and a reconciliation of the January 1, 2010 Canadian GAAP Statement of Financial Position to IFRS. The comparative data has been retroactively changed in accordance with the transition rules.

The following discussion should be read in conjunction with the Unaudited Interim Consolidated Financial Statements for the three and nine months ended September 30, 2011 and 2010.

DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

Results for the three and nine months ended September 30, 2011 and 2010 follow:

Loss

The loss for the three and nine months ended September 30, 2011 was \$891,507 and \$2,880,746, or \$0.02 and \$0.07 basic and diluted loss per share, respectively, as compared with a loss of \$406,944 and \$1,812,914 or \$0.01 and \$0.05 basic and diluted loss per share, respectively, for the comparable periods in 2010. The increase in the loss incurred in the first nine months of 2011 as compared to the same period in 2010 can be substantially explained by an increase in product development and clinical trial activities of \$808,654 and an increase in non-cash share-based payments of \$851,125. 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 consultant to provide strategic advisory services over the next four years in August 2011, which contributed to the increase in non-cash share-based payment in the third quarter of 2011.

Revenues

For the quarter ended September 30, 2011 revenues were \$1,426,047, compared to revenues of \$1,014,500 for the same period in 2010, an increase of 41%. For the nine months ended September 30, 2011, revenues were \$3,475,372, compared to revenues of \$3,040,261 for the same period in 2010, an increase of 14%.

Product sales for the three months ended September 30, 2011 were \$391,197, compared to product sales of \$539,478 in the same period of 2010, representing a decrease of 27%. Product sales for the nine months ended September 30, 2011 were \$1,120,290, compared to product sales of \$1,492,273 in the same period of 2010, representing a decrease of 25%. The decrease in product sales in the second and third quarters of 2011 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 \$528,467 in the third quarter of 2011, compared to \$99,878 in the comparable period in 2010, an increase of 429%. Contract manufacturing revenues were \$1,053,678 in the nine months ended September 30, 2011, compared to \$531,780 for the comparable period of 2010, an increase of 98%. 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 September 30, 2011 were \$506,383, compared to consulting service revenues of \$375,144 in the same period in 2010, representing an increase of 35%. Revenues from consulting services for the nine months ended September 30, 2011 were \$1,301,404, compared to consulting service revenues of \$1,016,208 in the same period in 2010, representing an increase of 28%. Neovasc's consulting service revenues are contract-driven and they can fluctuate from quarter to quarter as current projects are completed and new projects start.

Cost of Goods Sold

The cost of goods sold for the three and nine months ended September 30, 2011 were \$792,684 and \$1,869,417 respectively, as compared to \$568,536 and \$1,772,935 in the comparable periods in 2010. The overall gross margin was 44% for the third quarter and 46% for the nine months ended September 30, 2011, compared to 44% and 42% gross margins, respectively, in the comparable periods in 2010.

The improvement in gross margins in the nine months to September 30, 2011 compared to the same period in 2010 can be substantially explained by a shift in product mix to higher margin product lines. 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 three and nine months ended September 30, 2011 were \$1,594,968 and \$4,518,971, respectively, as compared to \$853,931 and \$3,066,347 in the same periods in 2010, representing an increase of 87% and 47%, respectively. Of these expenses, 49% of the increase in the third quarter and 59% of the increase in the first nine months of 2011 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 \$381,081 and \$601,499 between the comparable periods in 2010 and 2011, substantially due to an increase in clinical trial and product development expenses for Neovasc's two product development programs.

Selling expenses were \$48,154 and \$145,242 for the three and nine months ended September 30, 2011, compared to \$40,763 and \$135,012 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 \$774,829 and \$2,337,821 for the three and nine months ended September 30, 2011, as compared to \$482,775 and \$1,704,081 in the comparable periods of 2010, representing an increase of 60% and 37%, respectively. The increase in general and administrative expenses in the three and nine months ended September 30, 2011 was principally due to an increase in non-cash share-based payments, as discussed in the "Loss" section. Other expenses have remained equivalent year-over-year.

Research and development costs, including product development and clinical trial expenses were \$771,985 and \$2,035,908 for the three and nine months ended September 30, 2011, as compared to \$330,393 and \$1,227,254 in the comparable periods of 2010, representing an increase of 134% and 66%, respectively. 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.

Quarterly Information

The following is a summary of selected unaudited financial information for the eight fiscal quarters to September 30, 2011:

Quarter ended – Unaudited

	September 30, 2011 (IFRS)	June 30, 2011 (IFRS)	March 31, 2011 (IFRS)	December 31, 2010 (IFRS)
REVENUE				
Product Sales	\$ 391,197	\$ 178,412	\$ 550,681	\$ 657,417
Contract Manufacturing	528,467	234,960	290,251	318,834
Consulting Services	506,383	466,033	328,988	342,313
	<u>1,426,047</u>	<u>879,405</u>	<u>1,169,920</u>	<u>1,318,564</u>
COST OF GOODS SOLD	<u>792,684</u>	<u>410,957</u>	<u>665,776</u>	<u>860,053</u>
GROSS PROFIT	<u>633,363</u>	<u>468,448</u>	<u>504,144</u>	<u>458,511</u>
EXPENSES				
Selling	48,154	49,842	47,246	55,731
General and administrative	774,829	624,262	938,730	543,700
Product development and clinical trials	771,985	806,059	457,864	614,889
	<u>1,594,968</u>	<u>1,480,163</u>	<u>1,443,840</u>	<u>1,214,320</u>
OPERATING LOSS	<u>(961,605)</u>	<u>(1,011,715)</u>	<u>(939,696)</u>	<u>(755,809)</u>
OTHER INCOME (EXPENSE)	70,098	(4,070)	(33,758)	(61,279)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	<u>\$ (891,507)</u>	<u>\$ (1,015,785)</u>	<u>\$ (973,454)</u>	<u>\$ (817,088)</u>
BASIC AND DILUTED LOSS PER SHARE	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>
	September 30, 2010 (IFRS)	June 30, 2010 (IFRS)	March 31, 2010 (IFRS)	December 31, 2009 (GAAP)
REVENUE				
Product Sales	\$ 539,478	\$ 575,320	\$ 377,475	\$ 665,100
Contract Manufacturing	99,878	71,415	360,487	54,456
Consulting Services	375,144	313,185	327,879	324,316
	<u>1,014,500</u>	<u>959,920</u>	<u>1,065,841</u>	<u>1,043,872</u>
COST OF GOODS SOLD	<u>568,536</u>	<u>617,040</u>	<u>587,359</u>	<u>518,223</u>
GROSS PROFIT	<u>445,964</u>	<u>342,880</u>	<u>478,482</u>	<u>525,649</u>
EXPENSES				
Selling	40,763	49,358	44,891	105,343
General and administrative	482,775	715,013	506,293	524,485
Product development and clinical trials	330,393	538,680	358,181	432,950
	<u>853,931</u>	<u>1,303,051</u>	<u>909,365</u>	<u>1,062,778</u>
OPERATING LOSS	<u>(407,967)</u>	<u>(960,171)</u>	<u>(430,833)</u>	<u>(537,129)</u>
OTHER INCOME (EXPENSE)	1,023	26,437	(41,353)	(60,016)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	<u>\$ (406,944)</u>	<u>\$ (933,734)</u>	<u>\$ (472,236)</u>	<u>\$ (597,145)</u>
BASIC AND DILUTED LOSS PER SHARE	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>

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 third quarter of 2011 recorded our highest revenues to date. 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 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 third quarters of 2011 mainly due to stock-based compensation expense. Product development and clinical trial costs also peaked in the third quarter of 2011 due to the COSIRA clinical trial and some early internal development projects.

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 September 30, 2011, the Company had cash and cash equivalents of \$3,976,672, as compared to cash and cash equivalents of \$1,489,027 at December 31, 2010. In addition, at September 30, 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 and a bank overdraft facility of \$nil (December 31, 2010: \$213,280) included in current liabilities.

At September 30, 2011 the Company had working capital of \$4,868,877 as compared to working capital of \$1,752,712 at December 31, 2010. The increase in working capital during the first nine months of 2011 was predominantly due to the net impact of an increase in cash from completion of a non-brokered private placement in August 2011; an increase in accounts receivable due to higher sales in the third quarter of 2011 as compared to the fourth quarter of 2010; and a decrease in accounts payable and accrued liabilities.

Cash used in operating activities was \$1,980,818 for the nine months ended September 30, 2011, as compared to \$2,049,973 for the same period in 2010. The decrease in cash used during the nine months of 2011, compared to the same period of 2010, is principally due to an increase in operating expenses offset by a decrease in working capital requirements. During the nine months ended September 30, 2011, operating expenses were \$1,566,101 compared to \$1,310,812 for the comparative period in 2010 and working capital items absorbed cash of \$415,972, while in the same period of 2010 working capital items absorbed \$731,957.

Net cash invested in capital assets was \$35,068 and \$142,474 for the three and nine months ended September 30, 2011, compared to net cash invested in capital assets of \$74,122 and \$101,690 for the three and nine months ended September 30, 2010. During the three and nine month periods in 2011 the Company invested capital to expand its clean room and manufacturing facilities.

Net cash provided by financing activities was \$4,625,535 and \$4,610,937 for the three and nine months ended September 30, 2011, compared to cash used by financing activities of \$73,905 for the three months ended September 30, 2010, and cash provided by financing activities of \$2,829,437 for the nine months ended September 30, 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 \$22,015. 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.

SUBSEQUENT EVENTS

There were no material subsequent events from the end of the quarter to the date of this report.

OUTSTANDING SHARE DATA

As at September 30, 2011, the Company had 45,692,015 common voting shares issued and outstanding. Further, the following securities are convertible into common shares of the Company: 6,316,114 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 September 30, 2011 is 54,368,379.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

RELATED PARTY TRANSACTIONS

There were no transactions with related parties, other than those compensation based payments disclosed in Note 18 of the financial statements, during the three and nine months ended September 30, 2011 and 2010.

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 Canadian GAAP 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 nine months ended September 30, 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 the Unaudited Interim Consolidated Financial Statements for the three and nine months ended September 30, 2011 and 2010 note 3 have been applied in preparing the interim consolidated financial statements for the three and nine months ended September 30, 2011, the comparative information presented in these interim consolidated financial statements for the three and nine months ended September 30, 2010 and in the preparation of an opening IFRS consolidated statement of financial position at the date of transition.

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

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

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

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

Three months ended September 31, 2010	Notes	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
REVENUE				
Product sales	(iv)	\$ 639,356	(99,878)	\$ 539,478
Contract manufacturing	(iv)	-	99,878	99,878
Consulting services		375,144	-	375,144
	(v)	<u>1,014,500</u>	<u>-</u>	<u>1,014,500</u>
COST OF GOODS SOLD				
		563,937	4,599	568,536
GROSS PROFIT				
		<u>450,563</u>	<u>(4,599)</u>	<u>445,964</u>
EXPENSES				
Selling expenses		40,763	-	40,763
General and administrative expenses	(iii&v)	465,632	17,143	482,775
Product development and clinical trials expenses	(v)	325,045	5,348	330,393
Depreciation	(v)	30,863	(30,863)	-
		<u>862,303</u>	<u>(8,372)</u>	<u>853,931</u>
OPERATING LOSS				
		<u>(411,740)</u>	<u>3,773</u>	<u>(407,967)</u>
OTHER INCOME (EXPENSE)				
Interest income		119	-	119
Interest expense		(2,223)	-	(2,223)
Gain on foreign exchange		3,127	-	3,127
		<u>1,023</u>	<u>-</u>	<u>1,023</u>
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD				
		<u>\$ (410,717)</u>	<u>3,773</u>	<u>\$ (406,944)</u>
LOSS PER SHARE				
Basic and diluted loss per share	(vi)	<u>\$ (0.02)</u>	<u>-</u>	<u>\$ (0.01)</u>
Nine months ended September 31, 2010				
	Notes	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
REVENUE				
Product sales	(iv)	\$ 2,024,053	(531,780)	\$ 1,492,273
Contract manufacturing	(iv)	-	531,780	531,780
Consulting services		1,016,208	-	1,016,208
	(v)	<u>3,040,261</u>	<u>-</u>	<u>3,040,261</u>
COST OF GOODS SOLD				
		1,759,508	13,427	1,772,935
GROSS PROFIT				
		<u>1,267,326</u>	<u>(13,427)</u>	<u>1,267,326</u>
EXPENSES				
Selling expenses		135,012	-	135,012
General and administrative expenses	(iii&v)	1,649,960	54,121	1,704,081
Product development and clinical trials expenses	(v)	1,211,608	15,646	1,227,254
Depreciation	(v)	89,015	(89,015)	-
		<u>3,085,595</u>	<u>(8,372)</u>	<u>3,066,347</u>
OPERATING LOSS				
		<u>(1,804,842)</u>	<u>5,821</u>	<u>(1,799,201)</u>
OTHER INCOME (EXPENSE)				
Interest income		348	-	348
Interest expense		(7,552)	-	(7,552)
Loss on foreign exchange		(6,689)	-	(6,689)
		<u>(13,893)</u>	<u>-</u>	<u>(13,893)</u>
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD				
		<u>\$ (1,818,735)</u>	<u>5,821</u>	<u>\$ (1,812,914)</u>
LOSS PER SHARE				
Basic and diluted loss per share	(vi)	<u>\$ (0.05)</u>	<u>-</u>	<u>\$ (0.05)</u>

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

Nine months ended September 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
	(v)	<u>4,358,825</u>	-	<u>4,358,825</u>
COST OF GOODS SOLD				
		<u>2,614,919</u>	18,069	<u>2,632,988</u>
GROSS PROFIT				
		<u>1,743,906</u>	<u>(18,069)</u>	<u>1,725,837</u>
EXPENSES				
Selling expenses		190,743	-	190,743
General and administrative expenses	(iii&v)	2,165,070	82,711	2,247,781
Product development and clinical trials expenses	(v)	1,820,688	21,455	1,842,143
Depreciation	(v)	123,118	<u>(123,118)</u>	<u>-</u>
		<u>4,299,619</u>	<u>(18,952)</u>	<u>4,280,667</u>
OPERATING LOSS				
		<u>(2,555,713)</u>	833	<u>(2,554,830)</u>
OTHER INCOME (EXPENSE)				
Interest income		466	-	466
Interest expense		(11,567)	-	(11,567)
Loss on disposal of property and equipment		(9,912)	-	(9,912)
Loss on foreign exchange		(54,159)	-	(54,159)
		<u>(75,172)</u>	<u>-</u>	<u>(75,172)</u>
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD				
		<u>\$ (2,630,885)</u>	833	<u>\$ (2,630,002)</u>
LOSS PER SHARE				
Basic and diluted loss per share	(vi)	<u>\$ (0.07)</u>	<u>-</u>	<u>\$ (0.07)</u>

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

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

Amounts previously reported under "Cash and cash equivalents" have been disaggregated into "Cash" and "Bank overdraft" under IFRS (see (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, by \$134,618 as at September 30, 2010, and by \$213,280 as at December 31, 2010 and amounts reported as “Bank overdraft” increased by \$186,897 as at January 1, 2010, by \$134,618 as at September 30, 2010, and by \$213,280 as at December 31, 2010.

(iii) Share-based payments

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

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

As a result of applying the IFRS 2 to awards not yet vested at the date of transition to IFRS, contributed surplus was decreased by \$1,012 as at January 1, 2010(September 30, 2010: decreased by \$6,833; December 31, 2010: decreased by \$1,895), and deficit decreased by \$1,012 as at January 1, 2010 (September 30, 2010: decreased by \$6,833, December 31, 2010: decreased by \$1,895); Share-based payment expenses in “General and administrative expenses” decreased by \$3,773 and \$5,821 for the three and nine months ended September 30, 2010, respectively, and decreased by \$883 for the year-ended December 31, 2010.

(iv) Product sales

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

(v) Depreciation

Under IFRS, the Company has chosen to present the expenses recognized in profit or loss by their function. As a result, depreciation expense in Canadian GAAP is allocated to as an element of “Cost of goods sold”, “General and administrative expenses” and “Product development and clinical trials expenses”. As a result, amounts previously reported for these captions increased by \$4,599, \$20,916, and \$5,348 respectively for the three months ended September 30, 2010, increased by \$13,427, \$59,942, and \$15,646 respectively for the nine months ended September 30, 2010, and increased by \$18,068, \$83,594, and \$21,455 respectively for the year-ended December 31, 2010.

(vi) Basic and diluted loss per share

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