Neovasc Inc.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
December 31, 2009 AND 2008

(Expressed in Canadian Dollars)

CONTENTS

Grant Thornton LLP
Suite 1600, Grant Thornton Place
333 Seymour Street
Vancouver, BC
V6B 0A4

T (604) 687-2711
F (604) 685-6569
www.GrantThornton.ca

Auditors' report

To the shareholders of

Neovasc Inc.

We have audited the consolidated balance sheets of Neovasc Inc. as at December 31, 2009 and 2008 and the consolidated statements of operations and deficit, comprehensive loss, accumulated other comprehensive income and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Vancouver, Canada

March 19, 2010 Chartered accountants

NEOVASC INC.
Consolidated Balance Sheets
As at December 31

		2009		2008
ASSETS				
CURRENT				
Cash and cash equivalents (Note 21)	**$**	**111,368**	$	2,498,439
Accounts receivable		**442,540**		470,200
Inventory (Note 7)		**404,309**		341,564
Prepaid expenses and other assets		**15,771**		52,356
		973,988		3,362,559
RESTRICTED CASH AND CASH EQUIVALENTS (Note 12)		**50,000**		50,000
RETIREMENT ASSETS (Note 8)		**-**		8,320
PROPERTY AND EQUIPMENT (Note 11)		**1,249,326**		1,399,644
	$	**2,273,314**	$	4,820,523
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities	**$**	**962,512**	$	1,218,405
Current portion of long-term debt		**39,978**		20,635
		1,002,490		1,239,040
LONG-TERM DEBT (Note 12)		**357,097**		418,612
RETIREMENT LIABILITIES (Note 8)		**-**		8,964
		1,359,587		1,666,616
SHAREHOLDERS' EQUITY				
Share capital (Note 15)		**60,648,625**		58,607,066
Contributed surplus (Note 15)		**4,631,349**		4,436,804
Deficit		**(64,366,247)**		(59,889,963)
		913,727		3,153,907
	$	**2,273,314**	$	4,820,523

GOING CONCERN (Note 2)
SUBSEQUENT EVENTS (Note 21)

APPROVED BY THE DIRECTORS:

(signed) ***Alexei Marko***
Alexei Marko, Director

(signed) ***Steven Rubin***
Steven Rubin, Director

See accompanying Notes to the Audited Consolidated Financial Statements

NEOVASC INC.

Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the years ended December 31

		2009		2008
SALES (Note 20)				
Product sales	$	**2,121,733**	$	1,452,854
Consulting services		**878,314**		93,385
		3,000,047		1,546,239
COST OF GOODS SOLD		**1,404,507**		708,300
GROSS PROFIT		**1,595,540**		837,939
EXPENSES				
Selling (Note 16)		**666,323**		3,245,886
General and administration (Note 17)		**2,494,661**		3,459,800
Product development and clinical trials (Note 18)		**2,687,932**		3,101,869
Impairment of intangible assets (Note 9, 10)		**-**		23,061,012
Inventory write down (Note 7)		**-**		626,925
Recovery on repayable contribution agreement (Note 13)		**-**		(320,445)
Amortization on intangible assets (Note 9)		**-**		2,129,570
Amortization		**201,599**		194,291
		6,050,515		35,498,908
LOSS BEFORE OTHER INCOME (EXPENSES)		**(4,454,975)**		(34,660,969)
OTHER INCOME (EXPENSES)				
Interest income		**12,214**		153,277
Interest on long-term debt		**(10,245)**		(27,288)
Accreted interest on repayable contibution agreement (Note 13)		**-**		(15,479)
(Loss)/Gain on foreign exchange		**(23,278)**		290,894
		(21,309)		401,404
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		**(4,476,284)**		(34,259,565)
DEFICIT, BEGINNING OF THE YEAR		**(59,889,963)**		(25,630,398)
DEFICIT, END OF THE YEAR	$	**(64,366,247)**	$	(59,889,963)
BASIC AND DILUTED LOSS PER SHARE	$	**(0.18)**	$	(2.95)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		**24,978,476**		11,630,939
WEIGHTED AVERAGE NUMBER OF FULLY DILUTED SHARES OUTSTANDING		**26,374,471**		12,172,746

See accompanying Notes to the Audited Consolidated Financial Statements

NEOVASC INC.
Consolidated Statements of Cash Flows
For the years ended December 31

		2009		2008
OPERATING ACTIVITIES				
Net loss for the year	**$**	**(4,476,284)**	$	(34,259,565)
Items not affecting cash:				
Intangible assets impairment		**-**		23,061,012
Inventory write down		**-**		626,925
Recovery of repayable contibution agreement		**-**		(320,445)
Amortization		**201,599**		2,323,861
Accreted Interest on repayable contribution agreement		**-**		15,479
Stock-based compensation		**253,797**		387,360
		(4,020,888)		(8,165,373)
Change in non-cash operating assets and liabilities				
Accounts receivable		**27,660**		508,038
Inventory		**(62,745)**		(584,365)
Prepaid expenses and other assets		**36,585**		(24,376)
Retirement assets		**8,320**		72,295
Accounts payable and accrued liabilities		**(255,893)**		(184,183)
Retirement liabilities		**(8,964)**		(99,844)
		(4,275,925)		(8,477,808)
INVESTING ACTIVITY				
Acquistion of business, net of cash of $781,008 (Note 4)				
B-Balloon		**-**		(274,858)
Neovasc Medical		**-**		210,625
Purchase of property and equipment		**(51,281)**		(47,765)
		(51,281)		(111,998)
FINANCING ACTIVITIES				
Repayment of long-term debt		**(42,172)**		(21,852)
Repayment of loan from related party to B-Balloon		**-**		(356,440)
Repayment of repayable contribution agreement		**-**		(7,105)
Proceeds from share issue, net of costs of $20,314 (2008: $93,916)		**1,979,686**		8,231,088
Proceeds from exercise of stock options in exchange for common shares (net of contributed surplus)		**2,621**		150
		1,940,135		7,845,841
DECREASE IN CASH AND CASH EQUIVALENTS		**(2,387,071)**		(743,965)
CASH AND CASH EQUIVALENTS:				
BEGINNING OF THE YEAR		**2,498,439**		3,242,404
END OF PERIOD OF THE YEAR	**$**	**111,368**	$	2,498,439
REPRESENTED BY:				
Cash		**59,642**		181,228
Cashable guaranteed investment certificates		**51,726**		2,317,211
	$	**111,368**	$	2,498,439
NON CASH TRANSACTIONS				
Issue of shares to acquire B-Balloon and Neovasc Medical (Note 4)	**$**	**-**	$	24,613,554
SUPPLEMENTAL CASH FLOW INFORMATION				
Interest paid	**$**	**10,245**	$	27,288

See accompanying Notes to the Audited Consolidated Financial Statements

1. INCORPORATION AND NATURE OF BUSINESS

The Company was incorporated as Medical Ventures Corp. under the Company Act (British Columbia) on November 2, 2000 and was continued under the Canada Business Corporations Act on April 19, 2002. On July 1, 2008, the Company changed its name to Neovasc Inc. ("Neovasc" or the "Company"). Neovasc develops, manufactures and distributes medical devices.

Neovasc is a specialty vascular device company that develops, manufactures and markets medical devices for the rapidly growing vascular marketplace. The company's current products include the Neovasc Reducer™, an innovative product in development to treat refractory angina, as well as a line of advanced biological tissue technologies that are used to enhance surgical outcomes and as key components in a variety of third party medical products such as percutaneous heart valves.

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has incurred operating losses of $4,476,284 for the year ended December 31, 2009 (2008: $34,259,565) and has a deficit of $64,366,247 as at December 31, 2009 (2008: $59,889,963). 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.

In the medium to long term the Company will continue its strategy of business development to increase its existing revenue streams and product development to generate new revenue streams from new products. In the short term the Company has successfully completed an additional equity financing as disclosed in Note 21 and will use these funds to meet liabilities as they fall due.

If the going concern basis was not appropriate for these consolidated financial statements, significant adjustments would be necessary to the carrying values of the Company's assets and liabilities, reported expenses and balance sheet classifications.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Neovasc Medical Inc. (formerly PM Devices Inc.), Angiometrx Inc., Neovasc Medical Ltd. ("Neovasc Medical"), and B-Balloon Ltd. ("B-Balloon"). All intercompany balances and transactions have been eliminated upon consolidation.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. The recoverable amounts of accounts receivable, inventories, property and equipment and the fair value of share-based payments are the significant items subject to estimates in these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign currency translation

The functional currency of the Company and its subsidiaries is the Canadian dollar. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the average rate of exchange for the month in which such transactions occur.

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and short term, highly liquid investments that are readily convertible to known amounts of cash within ninety days of purchase. As at December 31, 2009 the Company has restricted cash of $50,000 (2008 - $50,000) representing security for the Company's long-term debt (Note 12).

The Company has an operating line of credit secured on its accounts receivable with a variable annual interest rate at Prime. The maximum line of credit is the lesser of $200,000 or 75% of North American trade receivables under 90 days old. At December 31, 2009 the Company had drawn $nil (2008: $nil) on the line of credit.

(e) Inventory

Inventory is valued at the lower of cost and net realizable value for finished goods and work in progress and at the lower of cost and replacement cost for raw materials. Cost is determined on a first-in, first-out basis. Cost of finished goods and work in progress includes direct material and labour costs and an allocation of manufacturing overhead and applicable shipping and handling costs. In determining net realizable value, the Company considers factors such as obsolescence, future demand for inventory and contractual arrangements with customers.

(f) Property and equipment

Property and equipment are recorded at cost less accumulated amortization and are amortized over their estimated useful lives using the following rates and method:

Building	4% declining balance
Production equipment	30% declining balance
Assets in the field	12 months straight line
Computer hardware	30% declining balance
Computer software	100% declining balance
Office equipment, furniture and fixtures	20% declining balance

(g) Technology

Costs related to the acquisition of technologies include certain patents. Technology is amortized over the shorter of the life of the major patents for the technologies and the expected period of technological obsolescence.

Technology is tested for impairment whenever events or circumstances indicate that a carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of an asset exceeds the estimated discounted cash flows used in determining the fair value of the assets. The amount of the impairment loss is calculated by the excess of the asset's carrying value over its fair value. As at December 31, 2008, Neovasc recognized an impairment charge of $19,503,930 and wrote down its acquired technology to zero (Note 9).

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(h) Goodwill

Goodwill represents the excess of the cost of investments in subsidiaries over the fair value of the net identifiable assets acquired. The Company reviews the goodwill of all of its reporting units on at least an annual basis to ensure its fair value is in excess of its carrying value in the financial statements. Any impairment in the value of goodwill is charged to income in the period such impairment is determined. As at December 31, 2008, Neovasc recognized an impairment charge of $3,557,082 and wrote down its acquired goodwill to zero (Note 10).

(i) Revenue recognition

The Company earns revenue from three sources: product sales, research and development and design services and contract manufacturing. Revenues from these three sources are recognized as follows:

(i) Product Sales

Revenue from product sales, including shipments to distributors, is recognized when the product is shipped from the Company's facilities to the customer when the price is fixed and determinable and collection is reasonably assured.

(ii) Research and development and design services

Revenue from research and development and design contracts is recognized under the terms of the related contract as services are rendered and collection is reasonably assured.

(iii) Contract manufacturing

Revenue from manufacturing contracts is recognized under the terms of the shipment to customers, when the price is fixed or determinable and collection is reasonably assured.

Cash received in advance of product sales or in advance of the provision of services is recorded as deferred revenue.

(j) Research and development

The Company is engaged in research and development. Research costs are expensed as incurred. Development costs are expensed in the period incurred, unless they meet the criteria for deferral established by Canadian GAAP, including a requirement that their recovery can reasonably be regarded as assured. Management reviews the applicable criteria on a regular basis and if the criteria are no longer met, any remaining unamortized balance is written off as a charge to income. Research and development costs are reduced by any scientific research and experimental development tax credits to which the Company is entitled.

(k) Government assistance

Government assistance, consisting of grants and research and experimental development tax credits, is recorded as a reduction of either the related expense or the cost of the asset to which it relates. The assistance is recorded in the accounts when reasonable assurance exists that the Company has complied with the terms and conditions of the approved government assistance program and when there is reasonable assurance that the assistance will be realized.

(l) Share capital

From time to time, the Company issues units consisting of common shares and warrants. The Company records the issuance as a whole in share capital and does not bifurcate the warrants.

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(m) Acquisition and share issue costs

Professional, consulting, regulatory fees and other costs that are directly attributable to acquisition and financing transactions are deferred until such time as the transactions are completed. Acquisition costs are added to the cost of the acquisition. Share issue costs are charged to share capital when the related shares are issued. Costs relating to acquisition and financing transactions that are not completed are charged to operations.

(n) Stock-based compensation

The Company has a stock option plan as disclosed in Note 15. The Company follows the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870 Stock-Based Compensation and Other Stock-Based Payments to account for grants under this plan. As recommended by Section 3870, the Company has adopted the fair value method for stock-based compensation granted to employees and non-employees and all direct awards of stock.

The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the options.

The fair value of direct awards of stock is determined by the quoted market price of the Company's stock.

(o) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes assets and liabilities reflect the tax effect of differences between the carrying amount of balance sheet items and their corresponding tax values and unutilized losses carried forward, using substantively enacted tax rates and laws that will be in effect when differences are expected to reverse. Future income tax assets are only recognized to the extent it is more likely than not that the related benefit will be realized.

(p) Loss per share

Loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per share is computed using the weighted average number of common shares outstanding during the period on a diluted basis using the treasury stock method.

(q) Adoption of new accounting standards

Goodwill and Intangible Assets

CICA 3064 replaces CICA 3062 and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets are equivalent to the corresponding provisions of IAS 38, Intangible Assets. The Section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The adoption of Handbook Section 3062 did not have an impact on the Company's consolidated financial condition, results of operations or cash flows during the current year and is not expected to have an effect in the future.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Adoption of new accounting standards (Continued)

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

In January 2009, the EIC issued Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC-173). EIC-173 requires an entity to take into account its own credit risk and that of the relevant counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purposes. EIC-173 is applicable to the entity effective January 1, 2009. The adoption of the EIC did not result in a material impact to the valuation of the entity's financial assets and financial liabilities.

(r) Recently released accounting standards

Business Combinations

In December 2008, CICA issued CICA Handbook Section 1582, Business Combinations, which will replace Section 1582, Business Combinations. This section establishes revised standards for the accounting for a business combination which are aligned with IFRS on business combinations. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

The Corporation does not intend to early apply these sections. The impact on the Corporation's consolidated financial statements from the application of this section will depend upon the nature of any future business acquisitions made by the Corporation after adoption.

Consolidated Financial Statements and Non Controlling Interests

In January 2009, the CICA issued CICA Handbook Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling interests. Together these sections replace the former Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination and is equivalent to the corresponding provisions of IFRS IAS 27, "Consolidated and Separate Financial Statements". The new standards result in measuring business acquisitions at the fair value of the acquired business and a prospectively applied shift from a parent corporation conceptual view of consolidation theory (which results in the parent corporation recording book values attributable to non-controlling interests) to an entity conceptual view (which results in the parent corporation recording fair values attributable to non-controlling interests). These sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 and are to be applied prospectively. Earlier adoption is permitted as of the beginning of a fiscal year. An entity adopting these Sections for a fiscal year beginning before January 1, 2011 must also adopt Section 1582, Business Combinations.

The Corporation does not intend to early apply the section. The impact on the Corporation's consolidated financial statements from the application of these sections will depend upon the nature of any future business acquisitions made by the Corporation after adoption.

4. ACQUISITION

On July 1, 2008, the Company acquired 100% of the issued and outstanding common shares and other securities of two Israeli companies, Neovasc Medical and B-Balloon in exchange for issuing an aggregate of 5,858,000 Neovasc securities to the securityholders of each of Neovasc Medical and B-Balloon.

Neovasc Medical was incorporated and commenced its operations in April 2002 under the laws of Israel. The company develops and commercializes proprietary stent technology for the treatment of patients suffering from recurring temporary shortage of blood to the heart muscle, known as refractory angina. It has a single technology in development, the Reducer.

B-Balloon was incorporated and commenced operations in April 2004 under the laws of Israel. B-Balloon is a medical device company specializing in the development of unique catheters and vascular stent delivery systems which are intended to solve specific clinical problems encountered by physicians implanting stents to open blockages at ostial locations (where an artery first originates from a larger blood vessel) or bifurcation locations (where an artery splits into two branches). The Company has a suite of products in development. Development of a number of B-Balloon's products has been temporarily suspended until further resources are available to recommence the development activities.

The acquisition has been accounted for using the purchase method with Neovasc identified as the acquirer. Accordingly, the consolidated entity is considered to be a continuation of Neovasc with the net assets of Neovasc Medical and B-Balloon being acquired and recorded at their fair market value. The Company's Statements of Operations for the year ended December 31, 2008 include the results of Neovasc for the year ended December 31, 2008 and those of Neovasc Medical and B-Balloon from July 1 to December 31, 2008.

Total consideration paid by Neovasc for all outstanding common shares, convertible preferred shares, stock options, and warrants is as follows:

	Issued to acquire B-Balloon		Issued to acquire Neovasc Medical		Total	
	Number	$	Number	$	Number	$
TOTAL CONSIDERATION PAID						
Common shares	5,273,800	$ 11,602,360	4,610,091	$ 10,142,200	9,883,891	$ 21,744,560
Replacement warrants	-	-	735,394	875,119	735,394	875,119
Replacement stock options	503,161	1,101,923	407,284	891,952	910,445	1,993,875
	5,776,961	12,704,283	5,752,769	11,909,271	11,529,730	24,613,554
Transaction costs		422,621		422,620		845,241
		$ 13,126,904		$ 12,331,891		$ 25,458,795

The total consideration paid for all outstanding common shares, convertible preferred shares, stock options, and warrants of each of B-Balloon and Neovasc consists of 11,529,730 securities, comprising 9,883,891 common shares, 735,394 warrants for the purchase of Neovasc common shares and 910,445 nominally priced options for the purchase of Neovasc common shares.

The table excludes 186,270 replacement options issued by Neovasc to the former employees and consultants of B-Balloon and Neovasc Medical which include a service requirement as a condition of vesting. These options which represent additional compensation for service not yet received, have been excluded from the calculation of total consideration and will be expensed as compensation for services rendered over the remaining vesting period of the options.

The fair value of the shares issued to acquire B-Balloon and Neovasc Medical was $2.20. The value of the shares is based on their market price over a reasonable period before and after the date the terms of the business combination were agreed to and announced, January 30, 2008, adjusted to recognize the effects of price fluctuations and quantities traded during extraordinary trading activity immediately after the announcement.

4. ACQUISITION (Continued)

The fair value of options and warrants of the Company issued to effect the acquisitions were estimated using the Black-Scholes model and the following assumptions:

Volatility	82 %
Risk-free interest rate	4 %
Expected life	1-10 years
Dividend yield	Nil %

The warrants had an exercise price of $1.38 and an expected life of 1.45 years. The options had a nominal ($0.01) exercise price and an expected life of between 4.5 and 9.6 years on July 1, 2008.

In accordance with the purchase method, the fair value of the consideration paid has been allocated to the fair value of the identifiable assets and liabilities acquired on July 1, 2008.

	B-Balloon	Neovasc Medical	Total
BOOK VALUE AND FAIR VALUE OF NET TANGIBLE ASSETS ACQUIRED			
Cash and cash equivalents	$ 147,763	$ 633,245	$ 781,008
Accounts receivable	51,193	358,081	409,274
Prepaid expenses	-	9,225	9,225
Funds for employee rights on retirement	30,397	29,988	60,385
Property and equipment	50,627	90,221	140,848
Accounts payable and accrued liabilities	(299,414)	(367,864)	(667,278)
Loans from related parties	(356,440)	-	(356,440)
Liability for employee rights on retirement	(72,601)	(36,208)	(108,809)
	(448,475)	716,688	268,213
FAIR VALUE OF INTANGIBLE ASSETS ACQUIRED			
Technology	10,907,300	10,726,200	21,633,500
Goodwill	2,668,079	889,003	3,557,082
FAIR VALUE OF NET ASSETS ACQUIRED	$ 13,126,904	$ 12,331,891	$ 25,458,795

5. MANAGING CAPITAL

The Company's objectives, when managing capital, are to safeguard cash as well as maintain financial liquidity and flexibility in order to preserve its ability to meet financial obligations and deploy capital to grow its business. In the definition of capital, the Company includes, as disclosed on its balance sheet: deficit, share capital, cash and cash equivalents and long-term debt. There has been no change in the definition since the prior period.

The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to business growth opportunities and changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue new shares, issue new debt (secured, unsecured, convertible and/or other types of available debt instruments), acquire or dispose of assets, or adjust the amount of cash or short-term investment balances.

As at December 31, 2009, the Company was out of compliance with its externally imposed capital covenants. Subsequent to year end, the company raised additional capital (See Note 21) and corrected the breach and on March 24, 2010 the Company renewed its long term debt agreements with the bank under the same terms and conditions and with the acknowledgement by the bank that the breech had been cured.

6. FINANCIAL INSTRUMENTS

Financial Instruments

The Company classifies its cash and cash equivalents and bank overdraft as held-for-trading and carries them at fair-value. Accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities, long-term debt and repayable contribution agreement are classified as other financial liabilities. The Company had neither available-for-sale, nor held-to-maturity instruments as at December 31, 2009 and at December 31, 2008. Loans and receivables and other financial liabilities have been recorded at amortized cost using the effective interest rate method.

(a) Cash equivalents

The Company holds cashable guaranteed investment certificates ("GIC") returning a fixed rate of interest of 1.90%. The GIC has an initial term of one year and matures on July 1, 2010 and is renewed annually.

(b) Foreign exchange risk

The majority of the Company's revenues are derived from product sales in the United States and Europe, primarily denominated in United States and European Union currency. Management has considered the stability of the foreign currency and the impact a change in the exchange rate may have on future earnings during the forecasting process. United States and European Union currency represents approximately 56% and 40%, respectively, of the revenue for the year. A 1% change in the foreign exchange rate for United States and European Union currency will result in a change in revenues of approximately $17,000 and $12,000, respectively.

(c) Interest rate risk

The Company makes fixed repayments on its long term debt as described in Note 12. Included in the repayments is an interest payment with an interest rate floating at prime rate. Management has considered the risks to cash flows from this variable interest portion and considers it unlikely that the interest rates will increase sufficiently to exceed the fixed monthly payment due on the loan. A 1% change in the interest rate on the long term debt will change the interest rate expense for the year by approximately $4,000 and inversely change the amount of principal repaid by the same amount.

(d) Liquidity risk

The Company has incurred operating losses since inception, as described in Note 2. The Company's ability to continue as a going concern is dependent on the profitable commercialization of its products or obtaining additional debt or equity financing to fund ongoing operations until profitability is achieved. The Company reviews its cash flows on a quarterly basis and forecasts expected break even points and the timing of additional cash flows. The maturity of the Company's long term debt is described in Note 12. The Company has minimal risk associated with the maturity of its long term debts. As at December 31, 2009 the Company had negative working capital of $28,502 as compared to working capital of $2,123,519 at December 31, 2008.

(e) Credit risk

Credit risk arises from the possibility that the entities to which the company sells products may experience financial difficulty and be unable to fulfill their contractual obligations. This risk is mitigated by proactive credit management policies that include regular monitoring of the debtor's payment history and performance. At year end the Company had only $8,352 of trade accounts receivable that was overdue.

7. INVENTORY

		December 31 2009		December 31, 2008
Materials	$	**152,729**	$	48,053
Work in progress		**74,318**		25,525
Finished goods		**177,262**		267,986
	$	**404,309**	$	341,564

During the last quarter of 2008, Neovasc terminated its distribution agreement with a third party who distributed the Peripatch and Aegis products in the United States and severed its direct sales force employees who sold the Company's Metricath products. On termination of the distribution agreement Neovasc was required to repurchase $198,838 of Peripatch inventory and $200,383 of Aegis Inventory and reverse $516,601 of revenue related to the repurchase of this inventory.

On December 22, 2008, Neovasc signed a new third party distribution contract for its Peripatch products in the United States and Europe and continues to supply a number of other Peripatch distributors in the rest of the world. As at December 31, 2008 the Company wrote down $626,925 of Catheter and Aegis inventory, including raw materials, work in progress, and finished goods.

8. EMPLOYEE RIGHTS UPON RETIREMENT

Pursuant to Israeli severance pay law, Israeli employees are entitled to severance pay upon termination of their employment. The Company's liability for employee rights upon retirement is calculated, based on the most recent salary of each employee multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month's salary for each year of employment, or a portion thereof. The Company makes monthly deposits to insurance policies and severance pay funds. As of December 31, 2009, the retirement liability is $nil (2008: $8,964).

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn upon the fulfillment of the obligation pursuant to Israeli severance pay laws or labor agreements. The value of the deposited funds is based on the cash surrender value of these policies, and includes immaterial profits. As of December 31, 2009, the retirement asset is $nil (2008: $8,320).

All liabilities owed to former employees have been paid out in accordance with the Israeli severance pay law.

9. TECHNOLOGY

In connection with the acquisition of B-Balloon and Neovasc Medical on July 1, 2008 (Note 4), the Company acquired technology, including certain patents. The total amount acquired was $10,907,300 and $10,726,200 and for B-Balloon and Neovasc Medical respectively.

During the fourth quarter of 2008, the Company reviewed its estimates and judgments regarding forecasts on the success and lifecycle of the technologies and future cash flows generated by the acquired technologies. As a result of market indicators and its impairment testing, the Company recorded an impairment charge of $19,503,930 and wrote down the net book value of acquired technologies to $Nil. Prior to this charge being recognized, the acquired technologies were being amortized over the shorter of the life of the major patents for the technologies and the expected period of technological obsolescence.

	December 31, 2009	December 31, 2008			
	Net Book Value	Cost	Accumulated Amortization	Impairment Charge	Net Book Value
Technology acquired from					
B-Balloon	**-**	10,907,300	1,363,413	9,543,887	-
Neovasc Medical	**-**	10,726,200	766,157	9,960,043	-
	$ -	$ 21,633,500	$ 2,129,570	$ 19,503,930	$ -

10. GOODWILL

As a result of the acquisition of B-Balloon and Neovasc Medical on July 1, 2008 (Note 4), the Company recorded $2,668,079 and $889,003 goodwill for B-Balloon and Neovasc Medical respectively.

During the fourth quarter of 2008, the Company's fair value, as measured by its market capitalization, remained below the value of the shareholders' equity for a significant period of time, indicating a potential goodwill impairment. As a result of market indicators and its impairment testing, the Company recorded an impairment charge of $3,557,082 and wrote down the net book value of acquired goodwill to $Nil.

11. PROPERTY AND EQUIPMENT

	December 31, 2009		
	Cost	Accumulated Depreciation	**Net Book Value**
Land	$ 207,347	-	**$ 207,347**
Building	1,013,859	191,209	**822,650**
Production equipment	523,504	404,071	**119,433**
Field assets	131,794	131,794	**-**
Computer hardware	162,408	124,628	**37,780**
Computer software	184,995	182,962	**2,033**
Office equipment, furniture and fixtures	182,980	122,897	**60,083**
	$ 2,406,887	$ 1,157,561	**$ 1,249,326**

	December 31, 2008		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 207,347	$ -	$ 207,347
Building	1,056,705	160,131	896,574
Production equipment	498,030	377,608	120,422
Field assets	131,794	131,794	-
Computer hardware	181,914	114,664	67,250
Computer software	181,511	180,930	581
Office equipment, furniture and fixtures	217,937	110,467	107,470
	$ 2,475,238	$ 1,075,594	$ 1,399,644

12. LONG-TERM DEBT

		December 31, 2009		December 31, 2008
Bank instalment loan	**$**	**397,075**	$	439,247
Less current portion		**(39,978)**		(20,635)
	$	**357,097**	$	418,612

Repayments will consist of 180 regular blended payments of $4,095 each month, including interest and principal, commencing on September 1, 2007 and ending on August 1, 2022. The loan is collateralized by a first charge over the Company's land and buildings, a liquid security agreement of $50,000 to be held in cash equivalent investments and a general security agreement over all personal property of the business now owned and all personal property acquired in the future. The loan bears interest at prime.

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

2010	$	39,978
2011		41,040
2012		42,036
2013		43,056
2014		44,101
Thereafter		186,864
	$	397,075

13. REPAYABLE CONTRIBUTION AGREEMENT

In 2003, the Company entered into an Industrial Research Assistance Program ("IRAP") Repayable Contribution Agreement with the National Research Council of Canada ("NRC") and received funding of $409,363. The Company agreed to repay this funding through future royalties on the gross revenues of its Metricath products at a rate of 2.1%. If the Company does not generate $409,363 in royalties before July 1, 2015, the unpaid balance of the funding contribution will be forgiven. In 2005, Management determined that it was likely that royalties in excess of $409,363 would be generated over the period to July 1, 2015 from the sales of the Company's Metricath products and as such had recorded a liability to reflect this obligation.

The fair value at inception was estimated as the present value of all future expected cash receipts discounted using the prevailing market rates of interest for a similar instrument and with a similar credit rating. Subsequent measurement of the repayable contribution agreement was at amortized net cost.

During the last quarter of 2008, Neovasc severed its direct sales force employees who sold the Company's Metricath products. The Metricath products do not currently have an established sales channel and Neovasc cannot predict whether or not it will be able to establish a suitable channel in the future and only generated revenue of $27,648 from these products in 2009. As a result, the Company released the $320,445 liability for the repayable contribution agreement at the end of 2008.

14. INCOME TAXES

Reported income tax expense differs from the amounts computed by applying current income tax rates to the loss before income taxes due to the following:

	For the years ended December 31, 2009	2008
Basic statutory rate	**29.0%**	30.8%
Expected income tax recovery	**$ (1,284,556)**	$ (10,540,740)
Stock based compensation	**61,227**	120,175
Impairment and amortization of intangible assets	**-**	7,809,081
Effect of other non-deductible expenses	**(73,915)**	58,817
Effect of rate change	**452,520**	589,832
Other	**40,866**	(101,712)
Change in valuation of allowance	**803,858**	2,064,547
Income tax expense	**-**	-

Future income taxes result principally from temporary differences in the recognition of certain revenue and expense items for financial and income tax reporting purposes. Significant components of the Company's future tax assets are as follows:

	For the years ended December 31, 2009	2008
Future income tax assets		
Capital assets	**$ 280,115**	$ 265,736
Non-capital loss carry forwards		
Share issue costs	**122,977**	214,649
Loss carry forwards	**10,754,191**	10,436,832
Research and development expenditures	**1,115,688**	991,834
Valuation allowance for future income tax assets	**(12,272,971)**	(11,909,051)
Future income tax assets	**-**	-

As at December 31, 2009, the Company has approximately $4,500,000 of research and development expenditures that may be available for deduction in future tax years, with no expiry date. The Company has loss carry forward balances for income tax purposes of approximately $42,000,000 that may be available to offset future taxable income, if any. The losses expire at various times through to the year 2029. The Company also has investment tax credits of approximately $1,700,000 that may be available to offset future income taxes, if any. The investment tax credits expire at various times through to the year 2028.

The future tax benefit of these expenditures, losses and tax credits is ultimately subject to final determination by taxation authorities. In 2009, the Company has not recognized any future income tax assets in respect of the amounts noted.

15. SHARE CAPITAL

All share data and per share amounts have been adjusted to retroactively restate the impact of the reverse stock split on a 20 for 1 basis that took place on July 1, 2008.

(a) Authorized

Unlimited number of common shares without par value
Unlimited number of preferred shares without par value

(b) Issued and outstanding	Common Shares Number	Common Shares Amount	Contributed Surplus
Balance, December 31, 2007	5,560,477	$ 28,835,081	$ 976,637
Issued for repurchasing warrants (i)	175,657	38,648	(38,648)
Issued on acquistion of B-Balloon (ii)	5,273,800	11,602,360	1,101,923
Issued on acquistion of Neovasc Medical (ii)	4,610,091	10,142,200	1,767,071
Issued for cash pursuant to a private placement (iii)	2,081,251	8,325,004	
Share issue costs (iii)		(93,916)	
Stock-based compensation			387,360
Expiry of agent's warrants		(242,461)	242,461
Issued for cash on exercise of options	750	150	
Balance, December 31, 2008	17,702,026	$ 58,607,066	$ 4,436,804
Issued for cash pursuant to a private placement (iv)	9,523,810	2,000,000	
Share issue costs (iv)		(20,314)	
Stock-based compensation			253,797
Issued for cash on exercise of options	163,857	61,873	(59,252)
Balance, December 31, 2009	27,389,693	60,648,625	4,631,349

(i) In connection with, and contingent upon the completion of the acquisition of Neovasc Medical and B-Balloon, the Company made an offer to all of the holders of warrants outstanding as at April 30, 2008 to repurchase those warrants in exchange for a lesser number of common shares in the Company. The offer to repurchase was made based on the value of the warrants ($38,648) calculated immediately prior to the exchange using a Black Scholes valuation method. 976,868 warrants were repurchased in exchange for common shares at a ratio of one common share for 5.75 warrants and 27,356 were repurchased at one common share for 4.75 warrants. An aggregate of 175,657 common shares were issued for the repurchase of the warrants. The warrant and option offer was completed immediately prior to the acquisitions on July 1, 2008.

(ii) Pursuant to the acquisition agreement, the Company issued 5,273,800 and 4,610,091 common shares to the securityholders of B-Balloon and Neovasc Medical respectively.

(iii) As a condition of the acquisitions the Company was required to complete a concurrent non-brokered private placement of units to raise minimum gross proceeds of $6,000,000. The actual proceeds raised on July 1, 2008 were $8,325,004. The units were issued at a price of $4.00 per unit and consist of one common share of the Company and 0.62 of a warrant. Each whole warrant is exercisable to purchase one additional common share of the Company at a price of $5.00 for a period of 18 months from July 1, 2008. Share issue costs related to the concurrent financing were $93,916.

15. SHARE CAPITAL (Continued)

(b) Issued and Outstanding (Continued)

(iv) On April 23, 2009, the Company completed a non-brokered private placement of 9,523,810 units at the price of $0.21 per unit for aggregate gross proceeds of $2,000,000. Each unit consists of one common share of Neovasc stock and one-half of one common share purchase warrants of Neovasc stock. Each whole warrant will entitle the holder thereof to purchase one common share of Neovasc stock at the exercise price of $0.30 per share for a period of one year after the closing date of the offering. Share issue costs were $20,314.

(c) Stock-based compensation

The Company adopted a stock option plan under which the directors of the Company may grant options to purchase common shares to directors, officers, employees and service providers (the "optionees") of the Company on terms that the directors of the Company may determine within the limitations set forth in the Stock Option Plan. Effective November 22, 2005, the board of directors of the Company approved an amendment to the Company's incentive Stock Option Plan to increase the number of options available for grant under the plan to 10% of the number of common shares of the Company outstanding from time to time.

Options under the Company's Stock Option Plan granted to directors may vest immediately and options granted to employees and officers vest over a four year term. The directors of the Company have discretion within the limitations set forth in the Stock Option Plan to determine other vesting terms on options granted to directors, officers, employees and others. The minimum exercise price of a stock option cannot be less than the applicable market price of the common shares on the date of the grant and the options have a maximum exercise period of five years. The following table summarizes stock option activity for the respective periods as follows:

	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Life (years)
Options outstanding, December 31, 2007	**217,316**	**$ 6.40**	**3.29**
Granted before June 30, 2008	2,500	$ 2.00	4.73
Forfeited before June 30, 2008	(16,750)	$ 7.00	
Options outstanding, June 30, 2008	203,066		
Option amendment (i)	(96,950)	$ -	-
Options assumed on acquisition of			
B-Balloon Ltd. (ii)	584,200	$ 0.01	6.48
Neovasc Medical Ltd. (ii)	512,515	$ 0.01	8.41
Granted on Oct. 31, 2008	1,157,077	$ 1.15	4.84
Forfeited	(181,976)	$ 0.63	-
Exercised	(750)	$ 0.20	
Options outstanding, December 31, 2008	**2,177,182**	**$ 0.57**	**6.01**
Granted	599,500	$ 0.40	3.17
Exercised	(163,853)	$ 0.02	-
Forfeited	(282,971)	$ 1.17	-
Expired	(187)	$ 0.20	-
Options outstanding, December 31, 2009	**2,329,671**	**$ 0.49**	**4.79**
Options exercisable, December 31, 2009	**1,481,615**	**$ 0.33**	**5.12**
Weighted average grant date fair value of stock options awarded during the year	$ 0.36		

15. SHARE CAPITAL (Continued)

(c) Stock-based compensation (Continued)

(i) In connection with, and contingent upon the completion of the acquisition of B-Balloon and Neovasc Medical, the Company made an offer to all of the holders of options outstanding as at April 30, 2008 to amend those options for a lesser number of $0.20 options to acquire common shares of the Company. The offer to amend the options was structured so that the estimated fair value of the replacement options issued equaled that of the options they replaced, calculated on the date of the exchange using a Black Scholes valuation method. All holders of options accepted the offer and as a result all the outstanding market priced options were amended into 106,116 $0.20 options on July 1, 2008. All of these amended options vested immediately on the date of the acquisition.

(ii) As part of the consideration paid to acquire B-Balloon and Neovasc Medical 1,096,715 options were assumed by Neovasc and replaced by an equal number of options of the Company. Of these, 81,039 unvested options issued to the option holders of B-Balloon and 105,231 unvested options issued to the option holders of Neovasc Medical are held by active employees or consultants and have been excluded from the purchase price to be expensed as compensation cost over their remaining vesting period. In addition, 11,058 options included as part of the calculation of total consideration have been cancelled as the employees were terminated during the period and their vesting period ceased. The options issued by Neovasc as part of the consideration are excluded from the Company's stock option plan, and they have an exercise price of less than $0.01 and a maximum exercise period of 10 years.

During the year ended December 31, 2009, the Company recorded $253,797 (2008 – $387,360) as compensation expense for stock-based compensation awarded to employees. The Company used the Black-Scholes option-pricing model to estimate the value of the options at each grant date using the following weighted average assumptions:

	2009	**2008**
Dividend yield	**nil**	**nil**
Annualized volatility	**149%**	**85%**
Risk-free interest rate	**2.00%**	**3.50%**
Expected life	**5 years**	**5 years**

15. SHARE CAPITAL (Continued)

(d) Warrants

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

	Number of Warrants
Balance, December 31, 2007	1,547,349
Expired	(527,375)
Balance, June 30, 2008	1,019,974
Repurchase of warrants (i)	(1,004,224)
Replacement warrants issued on acquisition of Neovasc Medical Ltd. (ii)	735,394
Issued pursuant to a private placement (iii)	1,330,375
Expired	(15,750)
Balance, December 31, 2008	2,065,769
Issued pursuant to a private placement (iv)	4,761,902
Expired	(2,065,769)
Balance, December 31, 2009	**4,761,902**

(i) In connection with the transaction described in note 15 (b) (i), all but 15,760 of the Company's warrants outstanding as at April 30, 2008 were exchanged for common shares of the Company. The warrant and option offer was completed immediately prior to the acquisitions on July 1, 2008.

(ii) Pursuant to the acquisition agreement, the Company assumed 735,394 warrants from the securityholders of Neovasc Medical.

(iii) As a condition of the acquisitions the Company was required to complete the concurrent non-brokered private placement of units (see note 15 (b) (iii)). An aggregate of 1,330,375 warrants were issued. Each whole warrant is exercisable to purchase one additional common share of the Company at a price of $5.00 for a period of 18 months from July 1, 2008.Pursuant to the acquisition agreement, the Company assumed 735,394 warrants from the securityholders of Neovasc Medical.

(iv) Pursuant to the non-brokered private placement on April 23, 2009 (see note 15 (b) (iv)), the Company issued 4,761,902 warrants. Each whole warrant will entitle the holder to purchase one common share of Neovasc stock at the exercise price of $0.30 per share for a period of one year from April 23, 2009.

The following table summarizes the warrants outstanding and exercisable at December 31, 2009:

Number Outstanding	Average Remaining Contractual Life	Weighted Average Exercise Price
4,761,902	0.31 yrs	0.30

The Company used the Black-Scholes option pricing model to estimate the value of the agents' warrants at each grant date using the following weighted average assumptions:

	2009	2008
Dividend yield	**nil**	nil
Annualized volatility	**149%**	85%
Risk-free interest rate	**2.00%**	3.50%
Expected life	**1 year**	1 year

16. SELLING

	For the years ended December 31, 2009	2008
Selling expense	**$ 157,514**	$ 1,355,205
Wages and consulting	**508,809**	1,890,681
	$ 666,323	$ 3,245,886

17. GENERAL AND ADMINISTRATIVE EXPENSES

	For the years ended December 31, 2009	2008
Audit and accounting	**$ 177,116**	$ 332,234
Legal	**134,651**	321,282
Insurance	**95,237**	89,058
Regulatory	**53,771**	77,034
Office and other expenses	**207,998**	950,614
Wages and consulting	**1,825,888**	1,689,578
	$ 2,494,661	$ 3,459,800

18. PRODUCT DEVELOPMENT AND CLINICAL TRIALS

	For the years ended December 31, 2009	2008
Clinical trials	**$ 861,541**	$ 780,258
Other direct costs	**626,534**	1,209,387
Wages and Consulting	**1,199,857**	1,112,224
	$ 2,687,932	$ 3,101,869

19. RELATED PARTY TRANSACTIONS

Related party transactions are entered into in the normal course of operations and are recorded at amounts established and agreed on between the related parties.

	For the years ended, December 31, 2009	2008
Income		
Contract Manufacturing (i)	**$ -**	$ 269,090
Expenses		
Services of the former CEO (ii)	**11,180**	99,838
Legal Services (iii)		
General expenses	**-**	7,899
Acquisition costs	**-**	186,763
Sales and marketing Services (iv)	**-**	133,312

	As at December 31, 2009	2008
Accounts Receivable		
Contract Manufacturing (i)	**-**	120,654
Accounts Payable		
Services of the former CEO (ii)	**-**	2,730
Legal Services (iii)	**-**	338

(i) Contract Manufacturing

The Company performs contract manufacturing services for a related corporation. Prior to July 1, 2008, one of the directors of this corporation was a significant shareholder in the Company

(ii) Services of the former CEO

The services of the former CEO were provided to the Company by a corporation controlled by the former CEO. The Company and the corporation have a director in common. These services were provided to help transition the responsibilities to the new CEO and ceased in January 2009. The former CEO continues to serve as Chairman of the Company.

(iii) Legal Services

Legal and corporate secretarial services were provided by a legal firm. A partner of that firm is a former director of the Company.

(iv) Sales and marketing Services

Sales and marketing services were provided by a former director of the Company.

The carrying amounts of the accounts receivable and accounts payable approximate fair values due to their short term nature.

20. SEGMENT INFORMATION

The Company's operations are in one business segment; the development, manufacture and marketing of medical devices. Each of the Company's product lines has similar characteristics, customers, distribution and marketing strategies, and are subject to similar regulatory requirements.

Substantially all of the Company's long-lived assets are located in Canada. The Company carries on business in Canada and to a lesser extent in Israel. It earns revenue from sales to customers in the following geographic locations:

	For the years ended December 31, 2009	2008
SALES		
Canada	**$ 118,225**	$ 202,148
United States	**1,173,973**	753,508
Other	**1,707,849**	590,583
	$ 3,000,047	$ 1,546,239

57% of the company's revenue for the year ended December 31, 2009 was derived from customers located in Europe, and 49% of the Company's revenues for the years ended December 31, 2008 was derived from customers located in the United States. Sales to the Company's three largest customers accounted for approximately 29%, 25% and 15% of the Company's sales for the year ended December 31, 2009, and 26%, 17% and 9% of the Company's sales for the year ended December 31, 2008.

21. SUBSEQUENT EVENTS

(a) 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 will entitle 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.

(b) On February 19, 2010 the Company issued 1,527,715 incentive options to its board of directors, senior management and all other employees. The options have an exercise price of $0.355 and expire five years after the grant date. Some options vested immediately, other vest over a four year period.