# Neovasc Inc.

## UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009

**(Expressed in Canadian Dollars)**

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# NEOVASC INC.

## Notice of No Auditor Review of Interim Consolidated Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the Interim Financial Statements they must be accompanied by a notice that the financial statements have not been reviewed by an auditor.

The accompanying Unaudited Interim Consolidated Financial Statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

The Company's independent auditors have not performed a review of these Interim Consolidated Financial Statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of Interim Financial Statements by an entity's auditors.

# NEOVASC INC.

## Interim Consolidated Balance Sheets

As at

| | | June 30, 2010 (Unaudited) | | December 31, 2009 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| CURRENT | | | | |
| Cash and cash equivalents | **$** | **1,412,271** | $ | 111,368 |
| Accounts receivable | | **404,507** | | 442,540 |
| Inventory (Note 6) | | **590,787** | | 404,309 |
| Prepaid expenses and other assets | | **52,265** | | 15,771 |
| | | **2,459,830** | | 973,988 |
| RESTRICTED CASH AND CASH EQUIVALENTS (NOTE 8) | | **50,000** | | 50,000 |
| PROPERTY AND EQUIPMENT (Note 7) | | **1,208,830** | | 1,249,326 |
| | **$** | **3,718,660** | $ | 2,273,314 |
| **LIABILITIES** | | | | |
| CURRENT | | | | |
| Accounts payable and accrued liabilities | **$** | **615,054** | $ | 962,512 |
| Current portion of long-term debt | | **40,359** | | 39,978 |
| | | **655,413** | | 1,002,490 |
| LONG-TERM DEBT (Note 8) | | **337,475** | | 357,097 |
| | | **992,888** | | 1,359,587 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital (Note 9) | | **63,590,510** | | 60,648,625 |
| Contributed surplus (Note 9) | | **4,909,527** | | 4,631,349 |
| Deficit | | **(65,774,265)** | | (64,366,247) |
| | | **2,725,772** | | 913,727 |

GOING CONCERN (Note 2)

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.

Interim Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the three and six months ended June 30

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| SALES (Note 11) | | | | |
| Product sales | **$ 646,735** | $ 529,769 | **$ 1,384,697** | $ 828,399 |
| Consulting services | **313,185** | 70,555 | **641,064** | 127,409 |
| | **959,920** | 600,324 | **2,025,761** | 955,808 |
| COST OF GOODS SOLD | **612,626** | 277,265 | **1,195,571** | 427,025 |
| GROSS PROFIT | **347,294** | 323,059 | **830,190** | 528,783 |
| EXPENSES | | | | |
| Selling | **49,358** | 163,683 | **94,249** | 466,568 |
| General and administration | **697,125** | 659,004 | **1,184,328** | 1,409,833 |
| Product development and clinical trials | **533,448** | 864,702 | **886,563** | 1,741,482 |
| Amortization | **30,689** | 31,103 | **58,152** | 63,459 |
| | **1,310,620** | 1,718,492 | **2,223,292** | 3,681,342 |
| LOSS BEFORE OTHER INCOME (EXPENSES) | **(963,326)** | (1,395,433) | **(1,393,102)** | (3,152,559) |
| OTHER INCOME (EXPENSES) | | | | |
| Interest income | **115** | 1,355 | **229** | 10,976 |
| Interest on long-term debt | **(2,991)** | 1,724 | **(5,329)** | (5,529) |
| Gain/(Loss) on foreign exchange | **29,313** | 61,903 | **(9,816)** | 70,421 |
| | **26,437** | 64,982 | **(14,916)** | 75,868 |
| NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD | **(936,889)** | (1,330,451) | **(1,408,018)** | (3,076,691) |
| DEFICIT, BEGINNING OF PERIOD | **(64,837,376)** | (61,636,203) | **(64,366,247)** | (59,889,963) |
| DEFICIT, END OF PERIOD | **$ (65,774,265)** | $ (62,966,654) | **$ (65,774,265)** | $ (62,966,654) |
| BASIC AND DILUTED LOSS PER SHARE | **$ (0.03)** | $ (0.05) | **$ (0.04)** | $ (0.14) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | **36,656,372** | 27,384,365 | **33,337,902** | 22,570,658 |
| WEIGHTED AVERAGE NUMBER OF FULLY DILUTED SHARES OUTSTANDING | **37,438,485** | 28,215,935 | **34,121,778** | 23,406,692 |

See Accompanying Notes to the Audited Consolidated Financial Statements

**NEOVASC INC.**

Interim Consolidated Statements of Cash Flows

For the three and six months ended June 30

| | | Three months ended June 30, | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|
| | | **2010** | | 2009 | | **2010** | | 2009 |

| | | Three months ended June 30, 2010 | | Three months ended June 30, 2009 | | Six months ended June 30, 2010 | | Six months ended June 30, 2009 |
|---|---|---|---|---|---|---|---|---|
| OPERATING ACTIVITIES | | | | | | | | |
| Net loss for the period | **$** | **(936,889)** | $ | (1,330,451) | **$** | **(1,408,018)** | $ | (3,076,691) |
| Items not affecting cash: | | | | | | | | |
| Amortization | | **30,689** | | 31,103 | | **58,152** | | 63,459 |
| Stock-based compensation | | **188,259** | | 40,399 | | **309,044** | | 126,451 |
| Loss on disposal of equipment | | **9,912** | | - | | **9,912** | | - |
| | | **(708,029)** | | (1,258,949) | | **(1,030,910)** | | (2,886,781) |
| Change in non-cash operating assets and liabilities | | | | | | | | |
| Accounts receivable | | **210,403** | | (106,089) | | **38,033** | | 28,417 |
| Inventory | | **(74,591)** | | (35,974) | | **(186,478)** | | (184,586) |
| Prepaid expenses and other assets | | **(11,654)** | | 115 | | **(36,494)** | | (6,164) |
| Accounts payable and accrued liabilities | | **(152,960)** | | (192,967) | | **(347,458)** | | (59,232) |
| | | **(736,831)** | | (1,593,864) | | **(1,563,307)** | | (3,108,346) |
| INVESTING ACTIVITY | | | | | | | | |
| Proceeds from disposal of equipment | | **5,790** | | - | | **5,790** | | |
| Purchase of property and equipment | | **(2,503)** | | (574) | | **(33,358)** | | (8,545) |
| | | **3,287** | | (574) | | **(27,568)** | | (8,545) |
| FINANCING ACTIVITIES | | | | | | | | |
| Repayment of long-term debt | | **(9,294)** | | (17,287) | | **(19,241)** | | (22,318) |
| Proceeds from share issue, net of costs of $22,015 | | **1,390,534** | | 1,979,686 | | **2,905,267** | | 1,979,686 |
| Proceeds from exercise of stock options | | **5,752** | | - | | **5,752** | | 1,555 |
| | | **1,386,992** | | 1,962,399 | | **2,891,778** | | 1,958,923 |
| (DECREASE)/INCREASE IN CASH | | **653,448** | | 367,961 | | **1,300,903** | | (1,157,968) |
| CASH AND CASH EQUIVALENTS, | | | | | | | | |
| BEGINNING OF PERIOD | | **758,823** | | 972,510 | | **111,368** | | 2,498,439 |
| END OF PERIOD | **$** | **1,412,271** | $ | 1,340,471 | **$** | **1,412,271** | $ | 1,340,471 |
| REPRESENTED BY: | | | | | | | | |
| (Bank Overdraft)/Cash | | **1,412,271** | | 538,006 | | **1,412,271** | | 538,006 |
| Cashable guaranteed investment certificates | | **-** | | 802,465 | | **-** | | 802,465 |
| | **$** | **1,412,271** | $ | 1,340,471 | **$** | **1,412,271** | $ | 1,340,471 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | | | | | | | |
| Interest paid | **$** | **2,991** | $ | 1,724 | **$** | **5,329** | $ | 5,529 |

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 interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a basis consistent with the Company's financial statements for the year ended December 31, 2009. These interim unaudited consolidated financial statements should be read together with the audited consolidated financial statements of the Company as at December 31, 2009 and the accompanying notes included in those financial statements. For a full description of accounting policies, refer to the audited consolidated financial statements of the Company for the year ended December 31, 2009. As permitted by Canadian generally accepted accounting principles certain information and footnote disclosure normally included in annual consolidated financial statements has been condensed or omitted. In the opinion of management, all adjustments necessary to present fairly the financial condition, results of operations and cash flows at June 30, 2010 and for all periods presented, have been made. Interim results are not necessarily indicative of results that may occur for a full year.

These interim consolidated financial statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has incurred operating losses of $936,889 and $1,408,018 for the three and six months ended June 30, 2010 (2009: $1,330,451 and $3,076,691) and has a deficit of $65,774,265 as at June 30, 2010 compared to a deficit of $64,366,247 as at December 31, 2009. 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, through the exercise of outstanding warrants, 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. CHANGES IN ACCOUNTING POLICIES

During the six months ended June 30, 2010, there have been no changes in accounting policies.

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. 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 June 30, 2010, the Company was in compliance with externally imposed capital requirements and covenants.

## 5. 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 June 30, 2010 and at December 31, 2009. 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 0.90%. The GIC has an initial term of one-year and matures on July 7, 2011 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 62% and 36%, respectively, of the revenue for the six months ended June 30, 2010. A 1% change in the foreign exchange rate for United States and European Union currency will result in a change in revenues of approximately $12,000 and $7,000 respectively.

(c) Interest rate risk

The Company makes fixed repayments on its long-term debt as described in Note 8. 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 quarter by approximately $1,000 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 8. The Company has minimal risk associated with the maturity of its long-term debts.

As at June 30, 2010 the Company had working capital of $1,804,417 as compared to a working capital deficit of $28,502 at December 31, 2009.

(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 June 30, 2010 the Company had $14,804 of trade accounts receivable that was overdue. During the six months ended June 30, 2010 the Company has written down bad debts of $21,410.

## 6. INVENTORY

| | | June 30, 2010 (Unaudited) | | December 31, 2009 |
|---|---|---|---|---|
| Materials | **$** | **374,053** | $ | 152,729 |
| Work in progress | | **81,195** | | 74,318 |
| Finished goods | | **135,539** | | 177,262 |
| | **$** | **590,787** | $ | 404,309 |

## 7. PROPERTY AND EQUIPMENT

**June 30, 2010 (Unaudited)**

| | | Cost | | Accumulated Depreciation | | **Net Book Value** |
|---|---|---|---|---|---|---|
| Land | $ | 207,347 | | - | **$** | **207,347** |
| Building | | 1,013,859 | | 207,662 | | **806,197** |
| Production equipment | | 525,718 | | 422,152 | | **103,566** |
| Field assets | | 131,794 | | 131,794 | | **-** |
| Computer hardware | | 164,911 | | 130,295 | | **34,616** |
| Computer software | | 213,636 | | 195,428 | | **18,208** |
| Office equipment, furniture and fixtures | | 160,039 | | 121,143 | | **38,896** |
| | $ | 2,417,304 | $ | 1,208,474 | **$** | **1,208,830** |

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 |

## 8. LONG-TERM DEBT

| | | June 30, 2010 (Unaudited) | | December 31, 2009 |
|---|---|---|---|---|
| Bank instalment loan | **$** | **377,834** | $ | 397,075 |
| Less current portion | | **(40,359)** | | (39,978) |
| | **$** | **337,475** | $ | 357,097 |

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

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

| | | |
|---|---|---|
| 2010 | $ | 40,359 |
| 2011 | | 41,518 |
| 2012 | | 42,525 |
| 2013 | | 43,557 |
| 2014 | | 44,614 |
| Thereafter | | 165,261 |
| | $ | 377,834 |

## 9. 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, 2008 | 17,702,026 | $ 58,607,066 | $ 4,436,804 |
| Issued for cash pursuant to a private placement (i) | 9,523,810 | 2,000,000 | |
| Share issue costs (i) | | (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 |
| Issued for cash pursuant to a private placement (ii) | 5,691,658 | 1,536,748 | |
| Share issue costs (ii) | | (22,015) | |
| Issued for cash on exercise of warrants (iii) | 4,635,114 | 1,390,534 | |
| Issued for cash on exercise of options | 116,478 | 36,618 | (30,866) |
| Stock-based compensation | | | 309,044 |
| **Balance, June 30, 2010 (Unaudited)** | **37,832,943** | **$ 63,590,510** | **$ 4,909,527** |

(i) 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.

(ii) 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. Share issue costs were $22,015.

(iii) On April 23, 2010, the Company issued 4,635,114 common shares upon the exercise of warrants issued as part of the Company's April 2009 financing (see note 9 (d) (iii)). Proceeds from the exercise of the 4,635,114 warrants amounted to $1,390,534. The remaining 126,788 warrants expired on April 23, 2010.

## 9. SHARE CAPITAL (Continued)

*(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:

*(c) Stock-based compensation*

| | Number of Options | | Weighted Average Exercise Price | Average Remaining Contractual Life (years) |
|---|---|---|---|---|
| **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** |
| Granted | 1,917,715 | $ | 0.36 | 4.69 |
| Exercised | (116,478) | $ | 0.05 | |
| Forfeited | (65,272) | $ | 0.40 | |
| Expired | (1,735) | $ | 0.20 | |
| **Options outstanding, June 30, 2010 (Unaudited)** | **4,063,901** | **$** | **0.44** | **4.52** |
| **Options exercisable, June 30, 2010 (Unaudited)** | **2,064,551** | **$** | **0.35** | **4.78** |
| Weighted average grant date fair value of stock options awarded during the period | $ 0.31 | | | |

During the three and six months ended June 30, 2010, the Company recorded $188,259 and $309,044 (2009 – $40,399 and $126,451) 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:

| | 2010 | 2009 |
|---|---|---|
| Dividend yield | **nil** | **nil** |
| Annualized volatility | **129%** | **149%** |
| Risk-free interest rate | **2.50%** | **2.00%** |
| Expected life | **5 years** | **5 years** |

**9. 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, 2008** | **2,065,769** |
| Issued pursuant to a private placement (i) | 4,761,902 |
| Expired | (2,065,769) |
| **Balance, December 31, 2009** | **4,761,902** |
| Issued pursuant to a private placement (ii) | 2,845,831 |
| Exercised (iii) | (4,635,114) |
| Expired (iii) | (126,788) |
| **Balance, June 30, 2010 (Unaudited)** | **2,845,831** |

(i) Pursuant to the non-brokered private placement on April 23, 2009 (see note 9 (b) (i)), 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.

(ii) Pursuant to the non-brokered private placement on February 19, 2010 (see note 9 (b) (ii), the Company issued 2,845,831 warrants. 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 from February 19, 2010.

(iii) On April 23, 2010, there were 4,635,114 warrants exercised, as part of the Company's April 2009 financing (see note 9 (d) (i)). Proceeds from the exercise of the 4,635,114 warrants amounted to $1,390,534. The remaining 126,788 warrants expired on April 23, 2010.

The following table summarizes the warrants outstanding and exercisable at March 31, 2010:

| **Number Outstanding** | **Average Remaining Contractual Life** | **Weighted Average Exercise Price** |
|---|---|---|
| 2,845,831 | 0.64 | 0.40 |

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:

| | **2010** | 2009 |
|---|---|---|
| Dividend yield | **nil** | nil |
| Annualized volatility | **129%** | 149% |
| Risk-free interest rate | **2.50%** | 2.00% |
| Expected life | **1 year** | 1 year |

## 10. 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. During the six months ended June 30, 2009 the former CEO charged the company for services in the amount of $10,639. 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. The carrying amounts of the accounts receivable and accounts payable approximate fair values due to their short-term nature.

## 11. 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 three months ended June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| SALES | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Canada | **$ 40,127** | $ 35,316 | **$ 81,115** | $ 58,527 |
| United States | **530,064** | 330,642 | **870,044** | 518,026 |
| Other | **389,729** | 234,366 | **1,074,602** | 379,255 |
| | **959,920** | 600,324 | **2,025,761** | 955,808 |

For the three and six months ended June 30, 2010, 41% and 53% of the company's revenues were derived from customers located in Europe, and 55% and 43% of the Company's revenues were derived from customers located in the United States. Sales to the Company's three largest customers accounted for approximately 48%, 26% and 5% of the Company's sales for the three months ended June 30, 2010, and 35%, 27% and 15% of the Company's sales for the six months ended June 30, 2010. Comparatively, sales to the Company's three largest customers accounted for approximately 39%, 12% and 6% of the Company's sales for the three months ended June 30, 2009, and 37%, 13% and 6% of the Company's sales for the six months ended June 30, 2009.