Neovasc Inc.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

(Expressed in Canadian dollars)

CONTENTS

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 consolidated 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 Statements of Financial Position (Unaudited)
(Expressed in Canadian dollars)

	Notes	June 30, 2012	December 31, 2011 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents	6	**$ 1,124,490**	$ 2,404,510
Investments	7	**1,504,258**	1,504,290
Accounts receivable	8	**535,553**	735,680
Inventory	9	**520,320**	300,773
Prepaid expenses and other assets		**53,669**	23,372
Total current assets		**3,738,290**	4,968,625
Non-current assets			
Property, plant and equipment	10	**1,422,329**	1,290,651
Restricted cash and cash equivalents	13	**41,040**	40,840
Total non-current assets		**1,463,369**	1,331,491
Total assets		**$ 5,201,659**	$ 6,300,116
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Bank overdraft	11	**$ 145,927**	$ -
Accounts payable and accrued liabilities	12	**834,312**	591,476
Current portion of long-term debt	13	**42,080**	41,568
Total current liabilities		**1,022,319**	633,044
Non-current liabilities			
Long-term debt	13	**260,976**	280,642
Total non-current liabilities		**260,976**	280,642
Total liabilities		**1,283,295**	913,686
Equity			
Share capital	14	**70,385,934**	70,220,381
Contributed surplus	14	**7,306,461**	6,158,434
Deficit		**(73,774,031)**	(70,992,385)
Total equity		**3,918,364**	5,386,430
Total liabilities and equity		**$ 5,201,659**	$ 6,300,116

GOING CONCERN (see Note 2(b))

NEOVASC INC.

Interim Consolidated Statements of Comprehensive Loss (Unaudited)
For the three and six months ended June 30, 2012 and 2011
(Expressed in Canadian dollars)

	Notes	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
REVENUE					
Product sales		**$ 742,226**	$ 178,412	**$ 1,451,868**	$ 729,093
Contract manufacturing		**458,359**	234,960	**799,806**	525,211
Consulting services		**434,023**	466,033	**1,095,925**	795,021
	16	**1,634,608**	879,405	**3,347,599**	2,049,325
COST OF GOODS SOLD	17	**994,809**	410,957	**1,874,081**	1,076,733
GROSS PROFIT		**639,799**	468,448	**1,473,518**	972,592
EXPENSES					
Selling expenses	17	**48,783**	49,842	**92,010**	97,088
General and administrative expenses	17	**943,467**	624,262	**2,157,272**	1,562,992
Product development and clinical trials expenses	17	**1,166,502**	806,059	**2,000,486**	1,263,923
		2,158,752	1,480,163	**4,249,768**	2,924,003
OPERATING LOSS		**(1,518,953)**	(1,011,715)	**(2,776,250)**	(1,951,411)
OTHER INCOME/(EXPENSE)					
Interest income		**10,499**	117	**21,833**	232
Interest expense		**(2,666)**	(2,996)	**(5,416)**	(6,005)
Loss on foreign exchange		**(5,235)**	(1,191)	**(21,813)**	(32,055)
		2,598	(4,070)	**(5,396)**	(37,828)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		**$ (1,516,355)**	$ (1,015,785)	**$ (2,781,646)**	$ (1,989,239)
LOSS PER SHARE					
Basic and diluted loss per share	18	**$ (0.03)**	$ (0.02)	**$ (0.06)**	$ (0.05)

See Accompanying Notes to the Interim Consolidated Financial Statements

NEOVASC INC.
Interim Consolidated Statements of Changes in Equity (Unaudited)
(Expressed in Canadian dollars)

	Notes	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at January 1, 2011		**$ 64,841,468**	**$ 4,999,062**	**$ (67,132,209)**	**$ 2,708,321**
Issue of share capital on exercise of warrants	14(b)(i)	130,517	-	-	130,517
Issue of share capital on exercise of options		85,449	(58,796)	-	26,653
Share-based payments		-	798,165	-	798,165
Transaction with owners during the period		**215,966**	**739,369**	**-**	**955,335**
Loss and comprehensive loss for the period		**-**	**-**	**(1,989,239)**	**(1,989,239)**
Balance at June 30, 2011		**$ 65,057,434**	**$ 5,738,431**	**$ (69,121,448)**	**$ 1,674,417**
Balance at January 1, 2012		**$ 70,220,381**	**$ 6,158,434**	**$ (70,992,385)**	**$ 5,386,430**
Issue of share capital on exercise of options		165,553	(151,330)	-	14,223
Share-based payments		-	1,299,357	-	1,299,357
Transaction with owners during the period		165,553	1,148,207	-	1,313,580
Loss and comprehensive loss for the period		**-**	**-**	**(2,781,646)**	**(2,781,646)**
Balance at June 30, 2012		**$ 70,385,934**	**$ 7,306,461**	**$ (73,774,031)**	**$ 3,918,364**

See Accompanying Notes to the Interim Consolidated Financial Statements

NEOVASC INC.
Interim Consolidated Statements of Cash Flows (Unaudited)
For the three and six months ended June 30, 2012 and 2011
(Expressed in Canadian dollars)

	Notes	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
OPERATING ACTIVITIES					
Loss for the period		**$ (1,516,355)**	$ (1,015,785)	**$ (2,781,646)**	$ (1,989,239)
Adjustments for:					
Depreciation	17	**33,973**	23,288	**60,763**	44,227
Share-based payments	17	**539,755**	266,237	**1,299,357**	798,165
Interest income		**(10,499)**	(117)	**(21,833)**	(232)
Interest expense		**2,666**	2,996	**5,416**	6,005
		(950,460)	(723,381)	**(1,437,943)**	(1,141,074)
Net change in non-cash working capital items:					
Accounts receivable		**48,960**	93,535	**200,127**	277,560
Inventory		**24,527**	(179,560)	**(219,547)**	(267,269)
Prepaid expenses and other assets		**(11,998)**	(21,126)	**(30,297)**	(12,614)
Accounts payable and accrued liabilities		**260,528**	177,072	**242,836**	217,913
		322,017	69,921	**193,119**	215,590
Interest paid and received:					
Interest received		**10,499**	117	**21,833**	232
Interest paid		**(2,666)**	(2,996)	**(5,416)**	(6,005)
		7,833	(2,879)	**16,417**	(5,773)
		(620,610)	(656,339)	**(1,228,407)**	(931,257)
INVESTING ACTIVITIES					
Decrease in investments		**1,008,455**	-	**32**	-
Purchase of property, plant and equipment		**(98,535)**	(19,514)	**(192,441)**	(107,406)
		909,920	(19,514)	**(192,409)**	(107,406)
FINANCING ACTIVITIES					
Increase/(decrease) in bank overdraft		**145,927**	(143,072)	**145,927**	(164,631)
(Increase)/decrease in restricted cash & cash equivalent		**(1,076)**	11,428	**(200)**	11,428
Repayment of long-term debt		**(9,619)**	(9,289)	**(19,154)**	(18,565)
Proceeds from exercise of warrants		**-**	-	**-**	130,517
Proceeds from exercise of options		**9,898**	55	**14,223**	26,653
		145,130	(140,878)	**140,796**	(14,598)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**434,440**	(816,731)	**(1,280,020)**	(1,053,261)
CASH AND CASH EQUIVALENTS					
Beginning of the period		**690,050**	1,252,497	**2,404,510**	1,489,027
End of the period		**$ 1,124,490**	$ 435,766	**$ 1,124,490**	$ 435,766
Represented by:					
Cash	6	**117,750**	383,343	**117,750**	383,343
Cashable guaranteed investment certificate	6	**1,006,740**	52,423	**1,006,740**	52,423
		$ 1,124,490	$ 435,766	**$ 1,124,490**	$ 435,766

See Accompanying Notes to the Interim Consolidated Financial Statements

1. INCORPORATION AND NATURE OF BUSINESS

Neovasc Inc. ("Neovasc" or the "Company") is a limited liability company incorporated and domiciled in Canada. 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 is the parent company. The interim consolidated financial statements of the Company as at June 30, 2012 and December 31, 2011 and for the three and six months ended June 30, 2012 and 2011 comprise the Company and its subsidiaries, all of which were wholly owned. Neovasc's registered office and its principal place of business is Suite 2135, 13700 Mayfield Place, Richmond, British Columbia, Canada, V6V 2E4. The Company's shares are listed on the TSX Venture Exchange.

Neovasc 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.

2. BASIS OF PREPARATION

(a) Statement of compliance with IFRS

These interim consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"), using the accounting policies consistent with the Company's annual consolidated financial statements for the year ended December 31, 2011. These interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2011 and the accompanying notes included in those financial statements. For a full description of accounting policies, refer to the audited annual consolidated financial statements of the Company for the year ended December 31, 2011.

The results for the three and six months ended June 30, 2012 may not be indicative of the results that may be expected for the full year or any other period.

(b) Going concern

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 $1,516,355 and $2,781,646 for the three and six months ended June 30, 2012 (three and six months ended June 30, 2011: $1,015,785 and $1,989,239) and has a deficit of $73,774,031 as at June 30, 2012 compared to a deficit of $70,992,385 as at December 31, 2011. The Company's ability to continue as a going concern is dependent on the profitable commercialization of its products or obtaining additional debt or equity financing to fund ongoing operations until profitability is achieved. The Company plans to manage its cash flows and investment in development projects to match the cash generated from operations and from additional debt or equity financings. 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 will continue to monitor its cash requirements and may cut costs or obtain additional debt or equity financing to fund ongoing operations until profitability is achieved as appropriate.

The Company believes that successful execution of its development plans will result in sufficient cash flow to fund projected operational and investment requirements. However, no assurances can be given that the Company will be able to achieve all or part of these objectives as discussed above. Should the Company be unable to complete its development plans the Company is committed to implementing all or a portion of its contingency plan. This plan has been designed to reduce cash outflows, and includes, but is not limited to, deferring certain product development activities and further reducing sales and marketing and general and administrative expenses. The failure of the Company to meet all or part of its development plans or contingency plan may have a material adverse impact on the Company's financial position, results of operations and cash flows.

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 classifications in the consolidated statement of financial position.

2. BASIS OF PREPARATION (continued)

(c) Basis of measurement

The Company's interim consolidated financial statements have been prepared on the historical cost basis except for accounts receivable measured at amortized cost and inventory measured at net realizable value.

(d) Basis of consolidation

The interim consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries, Neovasc Medical Inc., Angiometrx Inc., Neovasc Medical Ltd., B-Balloon Ltd. and Neovasc (US) Inc. All intercompany balances and transactions have been eliminated upon consolidation.

(e) Presentation of financial statements

The Company has elected to present the 'Statement of Comprehensive Income' in a single statement.

The Company presents two statements of financial position for its interim financial statements. In future periods, the Company will present two comparative periods for the statement of financial position only when it: (i) applies an accounting policy retrospectively, (ii) makes a retrospective restatement of items in its consolidated financial statements, or (iii) reclassifies items in the consolidated financial statements.

(f) Use of estimates and management judgment

The preparation of interim consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates relate to the determination of the net realizable value of inventory (obsolescence provisions), allowance for doubtful accounts receivable, impairment of non-financial assets, useful lives of depreciable assets and expected life, volatility and forfeiture rates for share-based payments.

Inventories
The Company estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

Allowance for doubtful accounts receivable
The Company provides for bad debt by setting aside accounts receivable past due more than 121 days. Uncertainty relates to the actual collectability of customer balances that can vary from the Company's estimation.

Impairment of long-lived assets
In assessing impairment, the Company estimates the recoverable amount of each asset or cash generating units based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Useful lives of depreciable assets
The Company reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utilization of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utilization of certain software and equipment.

Share-based payment
The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and forfeiture rates and making assumptions about them.

(Expressed in Canadian dollars)

3. CHANGES IN ACCOUNTING POLICIES

During the three and six months ended June 30, 2012, there have been no changes in accounting policies.

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 equity 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, or new debt (secured, unsecured, convertible and/or other types of available debt instruments).

The capital of the Company is comprised of:

	June 30, 2012	December 31, 2011
Equity	**$ 3,918,364**	$ 5,386,430
Long-term debt	**303,056**	322,210
	$ 4,221,420	$ 5,708,640

The Company is subject to certain financial covenants in connection with its long-term debt, including a requirement to limit the amount of total debt in relation to total equity. As at June 30, 2012 and December 31, 2011, the Company was in compliance with all financial covenants associated with its long-term debt.

For the three and six months ended June 30, 2012 and the three and six months ended June 30, 2011 there were no changes in the Company's capital management policy.

5. FINANCIAL RISK MANAGEMENT

(a) 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 63% and 34% of the revenue for six months ended June 30, 2012 (six months ended June 30, 2011: 55% and 40% respectively). A 5% change in the foreign exchange rates for United States and European Union currencies will result in a change in revenues of approximately $106,000 and $57,000 respectively. A 5% change in the foreign exchange rates for the United States and European Union currencies will result in a change in foreign currency denominated accounts receivable of approximately $15,200 and $10,600 respectively and a change in foreign currency denominated accounts payable of approximately $6,300 and $1,200 respectively.

(b) Interest rate risk

The Company makes fixed repayments on its long-term debt (see Note 13). 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 bank loan. A 1% change in the interest rate on the bank loan will change the interest rate expense for the quarter ended June 30, 2012 by approximately $800 (quarter ended June 30, 2011: $900) and inversely change the amount of principal repaid by the same amount.

(c) Liquidity risk

The Company has incurred operating losses since inception (see Note 2(b)). 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.

As at June 30, 2012 the Company had working capital of $2,715,571 as compared to working capital of $4,335,581 at December 31, 2011.

(d) 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. The Company does not require collateral from its customers as security for trade accounts receivable but may require certain customers to pay in advance of any work being performed or product being shipped. The maximum exposure, if all of the Company's customers were to default at the same time is the full carrying value of the trade accounts receivable at June 30, 2012: $509,700 (December 31, 2011: $700,411).

As at June 30, 2012, the Company had $25,204 (December 31, 2011: $21,998) of trade accounts receivable that was overdue, according to the customers' credit terms. Of these the Company has provided for $6,843 of trade accounts receivable which management believes may be impaired (December 31, 2011: $3,868). During the three and six months ended June 30, 2012 and for the three and six months ended June 30, 2011 the Company wrote down $nil of accounts receivable owed by customers.

(Expressed in Canadian dollars)

6. CASH AND CASH EQUIVALENTS

	June 30, 2012	December 31, 2011
Canadian dollars	$ 25,000	$ 445,563
United States dollars	74,750	456,052
European euros	18,000	349
Deposits held in high interest savings accounts ("HISAs")	-	1,201,688
Deposits held as guaranteed investments certificates ("GICs")	1,000,000	300,000
Accrued interest on GICs	6,740	858
	$ 1,124,490	$ 2,404,510

The GICs are issued by major Canadian Chartered Banks, are fully cashable, had a 90-day term, matured on July 16, 2012 and had a fixed interest of 1.50% per annum. In addition, as at June 30, 2012 the Company has restricted cash and cash equivalents of US$40,000 (December 31, 2011 - US$40,000) representing security for the Company's long-term debt (see Note 13).

7. INVESTMENTS

	June 30, 2012	December 31, 2011
Deposits held as guaranteed investments certificates ("GICs")	$ 1,500,000	$ 1,500,000
Accrued Interest on GICs	4,258	4,290
	$ 1,504,258	$ 1,504,290

The GICs are issued by major Canadian Chartered Banks, are non-cashable, have a 180-day term. The GICs will mature on October 15, 2012 with a fixed interest rate of 1.40% per annum.

8. ACCOUNTS RECEIVABLE

	June 30, 2012	December 31, 2011
Trade receivables	$ 516,543	$ 704,279
Allowance for doubtful accounts	(6,843)	(3,868)
Net trade receivables	509,700	700,411
Other receivables	25,853	35,269
	$ 535,553	$ 735,680

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value. All accounts receivable are pledged as security for the long-term debt of the Company (see Note 13). The aging analysis of receivables is as follows:

	June 30, 2012	December 31, 2011
Not past due	$ 491,339	$ 682,281
Past due 0 - 30 days	5,560	18,130
Past due 31 - 60 days	12,801	-
Past due 61 - 90 days	-	-
Past due 91 - 120 days	-	-
Past due more than 121 days	6,843	3,868
	$ 516,543	$ 704,279

(Expressed in Canadian dollars)

8. ACCOUNTS RECEIVABLE (continued)

All of the Company's trade and other receivables have been reviewed for impairment. No impairment was found. The movement in the allowance for doubtful accounts is as follows:

	June 30, 2012	December 31, 2011
Balance January 1,	$ 3,868	$ 781
Amounts recorded during period	2,975	3,087
	$ 6,843	$ 3,868

9. INVENTORY

	June 30, 2012	December 31, 2011
Raw materials	$ 434,388	$ 180,544
Work in progress	64,784	9,220
Finished goods	21,148	111,009
	$ 520,320	$ 300,773

During the three and six months ended June 30, 2012 $703,984 and $1,320,692 (three and six months ended June 30, 2011: $133,389 and $614,446) of inventory was expensed in cost of goods sold, and $60,705 and $93,209 (three and six months ended June 30, 2011: $15,772 and $20,137) of inventory was used in internal development projects and expensed in product development and clinical trial expenses. All the inventories are pledged as security for the long-term debt of the Company (see Note 13).

(Expressed in Canadian dollars)

10. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Production equipment	Computer hardware	Computer software	Office equipment	Total
COST							
Balance at January 1, 2011	**$ 207,347**	**$ 1,081,177**	**$ 528,561**	**$ 170,279**	**$ 216,739**	**$ 162,024**	**$ 2,366,127**
Additions	-	94,801	38,751	6,914	25,079	-	165,545
Balance at December 31, 2011	**$ 207,347**	**$ 1,175,978**	**$ 567,312**	**$ 177,193**	**$ 241,818**	**$ 162,024**	**$ 2,531,672**
Additions	-	117,915	31,459	10,280	26,805	5,982	192,441
Balance at June 30, 2012	**$ 207,347**	**$ 1,293,893**	**$ 598,771**	**$ 187,473**	**$ 268,623**	**$ 168,006**	**$ 2,724,113**
ACCUMULATED DEPRECIATION							
Balance at January 1, 2011	**$ -**	**$ 224,832**	**$ 440,725**	**$ 136,740**	**$ 213,635**	**$ 125,714**	**$ 1,141,646**
Depreciation for the year	-	36,478	34,014	11,660	9,961	7,262	99,375
Balance at December 31, 2011	**$ -**	**$ 261,310**	**$ 474,739**	**$ 148,400**	**$ 223,596**	**$ 132,976**	**$ 1,241,021**
Depreciation for the period	-	19,103	15,400	5,053	18,249	2,958	60,763
Balance at June 30, 2012	**$ -**	**$ 280,413**	**$ 490,139**	**$ 153,453**	**$ 241,845**	**$ 135,934**	**$ 1,301,784**
CARRYING AMOUNTS							
At December 31, 2011	$ 207,347	$ 914,668	$ 92,573	$ 28,793	$ 18,222	$ 29,048	$ 1,290,651
At June 30, 2012	**$ 207,347**	**$ 1,013,480**	**$ 108,632**	**$ 34,020**	**$ 26,778**	**$ 32,072**	**$ 1,422,329**

As at June 30, 2012, all property, plant and equipment were pledged as security for the long-term debt of the Company (see Note 13).

(Expressed in Canadian dollars)

11. BANK OVERDRAFT

		June 30, 2012		December 31, 2011
Overdraft per bank statement	**$**	**91,246**	$	-
Outstanding cheques		**54,681**		-
	$	**145,927**	$	-

The Company has an operating line of credit with a variable annual interest rate at prime plus 0.500%. The maximum line of credit is $200,000. The Company monitors the line of credit and ensures that there are sufficient funds to cover the outstanding cheques as they are presented at the bank without exceeding the line of credit limit.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		June 30, 2012		December 31, 2011
Trade payables	**$**	**488,280**	$	339,534
Accrued liabilities		**326,345**		236,618
Other payables		**19,687**		15,324
	$	**834,312**	$	591,476

All amounts are short-term. The net carrying value of trade payables is considered a reasonable approximation of fair value.

13. LONG-TERM DEBT

		June 30, 2012		December 31, 2011
Bank installment loan	**$**	**303,056**	$	322,210
Less current portion		**(42,080)**		(41,568)
	$	**260,976**	$	280,642

Repayments consist of 180 regular blended payments of $4,095 each month, including interest and principal, commencing on September 1, 2007 and ending on or before August 1, 2022. The loan agreement as amended on June 17, 2011, is collateralized by a first charge over the Company's land and buildings, a liquid security agreement of US$40,000 to be held in cash 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 plus 0.500% per annum.

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

		June 30, 2012		December 31, 2011
Year 1	**$**	**42,080**	$	41,568
Year 2		**43,372**		42,897
Year 3		**44,425**		43,938
Year 4		**45,503**		45,005
Year 5		**46,607**		46,097
Thereafter		**81,069**		102,705
	$	**303,056**	$	322,210

More information about the Company's exposure to interest rate and liquidity risk is given in Notes 5(b) and 5(c).

(Expressed in Canadian dollars)

14. SHARE CAPITAL

All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting.

(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		Amount		Contributed Surplus
Balance, January 1, 2011	**40,364,334**	**$**	**64,841,468**	**$**	**4,999,062**
Issued for cash on exercise of warrants (i)	326,293		130,517		
Issued for cash pursuant to a private placement (ii)	4,720,500		4,720,500		
Share issue costs (ii)			(42,864)		
Issued for cash on exercise of options	301,522		570,760		(539,774)
Share-based payments					1,699,146
Balance, December 31, 2011	**45,712,649**	**$**	**70,220,381**	**$**	**6,158,434**
Issued for cash on exercise of options	85,595		165,553		(151,330)
Share-based payments					1,299,357
Balance, June 30, 2012	**45,798,244**	**$**	**70,385,934**	**$**	**7,306,461**

(i) 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.

(ii) On August 16, 2011, the Company completed a non-brokered private placement of 4,720,500 equity units at the price of $1.00 per unit for aggregate gross proceeds of approximately $4,720,500. Each unit consists of one common share of Neovasc stock and one-half of one common share purchase warrant of Neovasc stock. Each whole warrant entitles the holder thereof to purchase one common share of Neovasc stock at the exercise price of $1.25 per share for a period of two years after the closing date of the offering. Share issue costs were $42,864.

(Expressed in Canadian dollars)

14. SHARE CAPITAL (continued)

(c) Stock options

The Company adopted an equity-settled 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 June 8, 2011, at the Annual General Meeting ("AGM"), 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 20% of the number of common shares of the Company outstanding on June 8, 2011.

Options under the Company's stock option plan granted to directors may vest immediately and options granted to employees and officers vest 20% immediately on the grant date, and 20% on each of the next four anniversaries of the grant date. 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 life of five years from the date of grant. The Company also assumed options from the acquisition of Neovasc Medical Ltd. and B-Balloon Ltd which are not the part of the Company's stock option plan. 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, January 1, 2011	**4,136,302**	**$**	**0.46**	**4.04**
Granted	2,468,250		1.00	
Exercised	(301,522)		0.10	
Forfeited	(7,550)		0.84	
Expired	(442)		0.20	
Options outstanding, December 31, 2011	**6,295,038**	**$**	**0.67**	**3.49**
Granted	1,473,600	$	1.45	
Exercised	(85,595)		0.17	
Forfeited	(5,000)		0.61	
Expired	(1,710)		0.20	
Options outstanding, June 30, 2012	**7,676,333**	**$**	**0.83**	**3.33**
Options exercisable, June 30, 2012	**5,202,521**	**$**	**0.66**	**3.10**
Weighted average measurement date fair value of stock options awarded during the year.		$	1.30	

The following table lists the options outstanding at June 30, 2012 by exercise price:

	Exercise price	**Options outstanding**	**Weighted average remaining term (yrs)**	**Options exercisable**	**Weighted average remaining term (yrs)**
$	0.01	515,824	4.69	515,824	4.69
$	0.20-0.40	2,365,409	2.48	1,974,359	2.48
$	0.97-1.45	4,795,100	3.66	2,712,338	3.30
		7,676,333		5,202,521	

(Expressed in Canadian dollars)

14. SHARE CAPITAL (continued)

The weighted average share price at the date of exercise for share options exercised for the six months ended June 30, 2012 was $0.17 (six months ended June 30, 2011: $0.33). During the three and six months ended June 30, 2012, the Company recorded $539,755 and $1,299,357, respectively, as compensation expense for share-based compensation awarded to eligible optionees (three and six months ended June 30, 2011: $266,237 and $798,165). The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the options at each measurement date using the following weighted average assumptions:

	2012	2011
Weighted average fair value	**$ 1.30**	$ 0.89
Dividend yield	**nil**	nil
Volatility	**145%**	141%
Risk-free interest rate	**1.50%**	3.00%
Expected life	**5 years**	5 years

(d) Warrants

	Number of warrants
Balance, January 1, 2011	**326,293**
Exercised (i)	(326,293)
Issued pursuant to a private placement (ii)	2,360,250
Balance, December 31, 2011 and June 30, 2012	**2,360,250**

(i) On January 17, 2011, and February 15, 2011, 197,922 and 128,371 warrants, issued as part of the Company's February 2010 financing (see Note 13(b)(i)), were exercised. Proceeds from the exercise of the 326,293 warrants amounted to $130,517.

(ii) On August 16, 2011, 2,360,250 warrants issued as part of the Company's August 2011 financing (see Note 13 (b)(ii)). Each whole warrant entitled 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.

There were no performance conditions attached to the warrants and all the warrants vested upon issuance.

15. EMPLOYEE BENEFITS EXPENSE

	Three months ended June 30,		**Six months ended June 30,**	
	2012	2011	**2012**	2011
Wages and salaries	**$ 779,806**	$ 635,514	**$ 1,532,563**	$ 1,275,678
Canadian pension plan and employment insurance	**39,100**	32,483	**89,917**	75,785
Contribution to defined contribution pension plan	**19,046**	12,127	**38,058**	28,236
Share-based payments	**539,755**	266,237	**1,299,357**	798,165
	$ 1,377,707	$ 946,361	**$ 2,959,895**	$ 2,177,864

(Expressed in Canadian dollars)

16. 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. The Company earns revenue from sales to customers in the following geographic locations:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	**2012**	2011
REVENUE				
United States	**$ 1,026,550**	$ 130,817	**$ 1,779,308**	$ 676,136
Europe	**619,782**	502,894	**1,520,088**	872,671
Israel	**5,213**	171,878	**36,946**	393,598
Canada	**(16,937)**	73,816	**11,257**	106,920
	$ 1,634,608	$ 879,405	**$ 3,347,599**	$ 2,049,325

Sales to the Company's three largest customers accounted for approximately 45%, 23%, and 12% of the Company's sales for the three months ended June 30, 2012, and 41%, 19%, and 18% of the Company's sales for the six months ended June 30, 2012. Comparatively, sales to the Company's three largest customers accounted for approximately 48%, 17% and 8% of the Company's sales for the three months ended June 30, 2011, and 35%, 26%, and 16% of the Company's sales for the six months ended June 30, 2011.

(Expressed in Canadian dollars)

17. DEPRECIATION AND SHARE-BASED PAYMENTS

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
COST OF GOODS SOLD				
Depreciation	**$ 4,371**	$ 3,675	**$ 7,154**	$ 6,962
Share-based payments	**35,590**	10,481	**41,259**	12,344
Other costs	**954,848**	396,801	**1,825,668**	1,057,427
TOTAL COST OF GOODS SOLD	**$ 994,809**	$ 410,957	**$ 1,874,081**	$ 1,076,733
EXPENSES				
Selling expenses				
Depreciation	**$ 177**	$ -	**$ 177**	$ -
Share-based payments	**6,116**	4,318	**8,742**	5,081
Other expenses	**42,490**	45,524	**83,091**	92,007
	48,783	49,842	**92,010**	97,088
General and administrative expenses				
Depreciation	**23,304**	13,470	**41,591**	26,005
Share-based payments	**347,627**	140,703	**1,013,609**	614,785
Other expenses	**572,536**	470,089	**1,102,072**	922,202
	943,467	624,262	**2,157,272**	1,562,992
Product development and clinical trials expenses				
Depreciation	**6,121**	6,143	**11,841**	11,260
Share-based payments	**150,422**	110,735	**235,747**	165,955
Other expenses	**1,009,959**	689,181	**1,752,898**	1,086,708
	1,166,502	806,059	**2,000,486**	1,263,923
TOTAL EXPENSES	**$ 2,158,752**	$ 1,480,163	**$ 4,249,768**	$ 2,924,003
Depreciation per Statements of Cash Flows	**$ 33,973**	$ 23,288	**$ 60,763**	$ 44,227
Share-based payments per Statements of Cash Flows	**$ 539,755**	$ 266,237	**$ 1,299,357**	$ 798,165

(Expressed in Canadian dollars)

18. LOSS PER SHARE

Both the basic and diluted loss per share have been calculated using the loss attributable to shareholders of the Company as the numerator. The weighted average number of common shares outstanding used for basic loss per share for the three and six months ended June 30, 2012 amounted to 45,779,496 and 45,758,320 shares, respectively (three and six months ended June 30, 2011: 40,771,852 and 40,462,809 shares).

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Weighted average number of common shares - basic	**45,779,496**	40,771,852	**45,758,320**	40,462,809
Loss for the period	**(1,516,355)**	(1,015,785)	**(2,781,646)**	(1,989,239)
Basic loss per share	**$ (0.03)**	$ (0.02)	**$ (0.06)**	$ (0.05)

As the Company is currently operating at a loss, no dilutive potential ordinary shares have been identified as the conversion would lead to a decrease in loss per share.

19. RELATED PARTY TRANSACTIONS

The Company's key management personnel include members of the board of directors and executive officers. The Company provides salaries or cash compensation, and other non-cash benefits to directors and executive officers.

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Short-term employee benefits				
Employee salaries	**$ 167,500**	$ 151,875	**$ 335,000**	$ 303,750
Directors fees	**15,390**	16,093	**30,377**	33,100
Social security and medical care costs	**2,406**	1,391	**13,928**	12,313
	185,296	169,359	**379,305**	349,163
Post-employment benefits				
Contributions to defined contribution pension plan	**6,282**	5,695	**12,563**	9,492
	6,282	5,695	**12,563**	9,492
Share-based payments	**191,045**	138,448	**771,700**	603,443
	191,045	138,448	**771,700**	603,443
Total key management remuneration	**$ 382,623**	$ 313,502	**$ 1,163,568**	$ 962,098

20. AUTHORIZATION OF FINANCIAL STATEMENTS

The interim consolidated financial statements for the three and six months ended June 30, 2012 (including comparatives) were approved by the board of directors on August 7, 2012.

(signed) ***Alexei Marko***

Alexei Marko, Director

(signed) ***Steven Rubin***

Steven Rubin, Director