Neovasc Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013

(Expressed in Canadian dollars)

CONTENTS

NEOVASC INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(Expressed in Canadian dollars)

	Notes	June 30, 2014	December 31, 2013
ASSETS			
Current assets			
Cash and cash equivalents	6	**$ 15,687,834**	$ 3,403,472
Investments	7	**9,999,999**	-
Accounts receivable	8	**1,341,300**	1,289,933
Inventory	9	**835,040**	484,811
Prepaid expenses and other assets		**143,679**	28,266
Total current assets		**28,007,852**	5,206,482
Non-current assets			
Property, plant and equipment	10	**2,389,270**	2,236,900
Total non-current assets		**2,389,270**	2,236,900
Total assets		**$ 30,397,122**	$ 7,443,382
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	11	**$ 2,272,371**	$ 1,577,158
Customer deposits	12	**116,300**	-
Current portion of long-term debt	13	**44,087**	43,548
Total current liabilities		**2,432,758**	1,620,706
Non-current liabilities			
Long-term debt	13	**178,987**	200,084
Total non-current liabilities		**178,987**	200,084
Total liabilities		**2,611,745**	1,820,790
Equity			
Share capital	14	**98,845,182**	73,411,391
Contributed surplus	14	**13,886,181**	10,305,204
Deficit		**(84,945,986)**	(78,094,003)
Total equity		**27,785,377**	5,622,592
Total liabilities and equity		**$ 30,397,122**	$ 7,443,382

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Condensed Interim Consolidated Statements of Comprehensive Loss (Unaudited)

For the three and six months ended June 30,
(Expressed in Canadian dollars)

	Notes	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
REVENUE					
Product sales		**$ 798,921**	$ 766,834	**$ 1,493,919**	$ 1,356,879
Contract manufacturing		**721,225**	521,361	**906,941**	1,096,510
Consulting services		**2,884,369**	1,504,620	**5,839,790**	2,348,806
	15	**4,404,515**	2,792,815	**8,240,650**	4,802,195
COST OF GOODS SOLD	17	**3,066,924**	1,632,155	**4,981,446**	2,867,436
GROSS PROFIT		**1,337,591**	1,160,660	**3,259,204**	1,934,759
EXPENSES					
Selling expenses	17	**24,413**	31,685	**44,328**	52,692
General and administrative expenses	17	**4,644,387**	928,663	**5,740,841**	2,654,395
Product development and clinical trials expenses	17	**3,113,707**	1,613,609	**4,346,909**	2,602,180
		7,782,507	2,573,957	**10,132,078**	5,309,267
OPERATING LOSS		**(6,444,916)**	(1,413,297)	**(6,872,874)**	(3,374,508)
OTHER INCOME/(EXPENSE)					
Interest income		**71,066**	-	**75,938**	-
Interest expense		**(1,995)**	(2,351)	**(4,012)**	(4,711)
(Loss)/gain on foreign exchange		**(96,066)**	177,255	**(51,035)**	280,670
		(26,995)	174,904	**20,891**	275,959
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		**$ (6,471,911)**	$ (1,238,393)	**$ (6,851,983)**	$ (3,098,549)
LOSS PER SHARE					
Basic and diluted loss per share	19	**$ (0.12)**	$ (0.03)	**$ (0.13)**	$ (0.07)

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)

(Expressed in Canadian dollars)

	Notes	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at January 1, 2013		**$ 70,421,185**	**$ 8,370,258**	**$ (71,343,753)**	**$ 7,447,690**
Issue of share capital on exercise of warrants		2,446,875	-	-	2,446,875
Issue of share capital on exercise of options		46,075	(22,363)	-	23,712
Share-based payments		-	1,335,721	-	1,335,721
		2,492,950	1,313,358	-	3,806,308
Loss and comprehensive loss for the period		**-**	**-**	**(3,098,549)**	**(3,098,549)**
Balance at June 30, 2013		**$ 72,914,135**	**$ 9,683,616**	**$ (74,442,302)**	**$ 8,155,449**
Balance at January 1, 2014		**$ 73,411,391**	**$ 10,305,204**	**$ (78,094,003)**	**$ 5,622,592**
Issue of share capital pursuant to a bought deal prospectus offering	14	25,152,000	-	-	25,152,000
Share issue costs	14	(506,651)	-	-	(506,651)
Issue of share capital on exercise of options	14	788,442	(649,664)	-	138,778
Share-based payments	14	-	4,230,641	-	4,230,641
		25,433,791	3,580,977	-	29,014,768
Loss and comprehensive loss for the period		**-**	**-**	**(6,851,983)**	**(6,851,983)**
Balance at June 30, 2014		**$ 98,845,182**	**$ 13,886,181**	**$ (84,945,986)**	**$ 27,785,377**

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

For the three and six months ended June 30,
(Expressed in Canadian dollars)

	Notes	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
OPERATING ACTIVITIES					
Loss for the period		**$ (6,471,911)**	$ (1,238,393)	**$ (6,851,983)**	$ (3,098,549)
Adjustments for:					
Depreciation	17	**85,973**	51,330	**164,633**	87,326
Share-based payments	17	**4,065,680**	299,254	**4,230,641**	1,335,721
Interest income		**(71,066)**	-	**(75,938)**	-
Interest expense		**1,995**	2,351	**4,012**	4,711
		(2,389,329)	(885,458)	**(2,528,635)**	(1,670,791)
Net change in non-cash working capital items:					
Accounts receivable		**425,909**	(462,436)	**(15,614)**	(454,318)
Inventory		**179,052**	12,984	**(350,229)**	(244,473)
Prepaid expenses and other assets		**(101,719)**	(48,137)	**(115,413)**	(91,308)
Accounts payable and accrued liabilities		**585,690**	235,140	**695,213**	434,452
Customer Deposits		**(124,686)**	-	**116,300**	-
		964,246	(262,449)	**330,257**	(355,647)
Interest paid and received:					
Interest received		**38,037**	-	**40,185**	-
Interest paid		**(1,995)**	(2,351)	**(4,012)**	(4,711)
		36,042	(2,351)	**36,173**	(4,711)
		(1,389,041)	(1,150,258)	**(2,162,205)**	(2,031,149)
INVESTING ACTIVITES					
Investment in guaranteed investment certificates	7	**-**	-	**(9,999,999)**	-
Purchase of property, plant and equipment	10	**(251,141)**	(578,397)	**(317,003)**	(893,032)
		(251,141)	(578,397)	**(10,317,002)**	(893,032)
FINANCING ACTIVITIES					
Increase/(decrease) in bank overdraft		**-**	(46,988)	**-**	80,110
Repayment of long-term debt		**(10,291)**	(9,934)	**(20,558)**	(19,859)
Proceeds from share issue pursuant to a bought deal prospectus offering, net of share issue costs of $506,651	14	**-**	-	**24,645,349**	-
Proceeds from exercise of warrants	14	**-**	2,393,750	**-**	2,446,875
Proceeds from exercise of options	14	**115,218**	-	**138,778**	23,712
		104,927	2,336,828	**24,763,569**	2,530,838
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(1,535,255)**	608,173	**12,284,362**	(393,343)
CASH AND CASH EQUIVALENTS					
Beginning of the period		**17,223,089**	4,859,604	**3,403,472**	5,861,120
End of the period		**$ 15,687,834**	$ 5,467,777	**$ 15,687,834**	$ 5,467,777
Represented by:					
Cash		**$ 1,149,180**	$ 5,467,777	**$ 1,149,180**	$ 5,467,777
Cashable high interest savings accounts		**9,538,654**	-	**9,538,654**	-
Guaranteed investment certificates		**5,000,000**	-	**5,000,000**	-
	6	**$ 15,687,834**	$ 5,467,777	**$ 15,687,834**	$ 5,467,777

See Accompanying Notes to the Condensed 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 consolidated financial statements of the Company as at June 30, 2014 and December 31, 2013 and for the three and six months ended June 30, 2014 and 2013 comprise the Company and its subsidiaries, all of which are wholly owned. The Company's principal place of business is located at Suite 2135 – 13700 Mayfield Place, Richmond, British Columbia, V6V 2EY and the Company's registered office is located at Suite 2600 – 595 Burrard Street, Vancouver, British Columbia, V7X 1L3, Canada. The Company's shares are listed on the Toronto Stock Exchange (TSX:NVC) and the Nasdaq Capital Market (NASDAQ:NVCN).

Neovasc is a specialty medical device company that develops, manufactures and markets products for the rapidly growing cardiovascular marketplace. Its products include the Tiara™ technology in development for the transcatheter treatment of mitral valve disease, the Neovasc Reducer™ for the treatment of refractory angina and a line of advanced biological tissue products called Peripatch™ that are used as key components in third-party medical products including 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, 2013. 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, 2013 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, 2013.

The results for the three and six months ended June 30, 2014 may not be indicative of the results that may be expected for the full year or any other period.

(b) Basis of consolidation

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

(c) Presentation of financial statements

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

2. BASIS OF PREPARATION (continued)

(d) Use of estimates and management judgment

The preparation of 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 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 debts by setting aside accounts receivable past due more than 121 days or sooner if management determines that certain accounts receivable may be uncollectible. Actual collectability of customer balances 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 unit 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.

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.

3. CHANGES IN ACCOUNTING POLICIES

During the three and six months ended June 30, 2014, there have been no changes in accounting policies.

(Expressed in Canadian dollars)

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, 2014		December 31, 2013
Equity	**$**	**27,785,377**	$	5,622,592
Long-term debt		**223,074**		243,632
	$	**28,008,451**	$	5,866,224

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 by a ratio of less than or equal to 1:1. As at June 30, 2014 and December 31, 2013, the Company was in compliance with all financial covenants associated with its long-term debt.

For the six months ended June 30, 2014 and year ended December 31, 2013, there were no changes in the Company's capital management policy.

5. FINANCIAL RISK MANAGEMENT

Categories of financial assets and financial liabilities

The carrying amounts of financial assets and financial liabilities in each category are as follows:

	Notes		**June 30, 2014**		December 31, 2013
Financial assets			**Loans and receivables**		
Cash and cash equivalents	6	**$**	**15,687,834**	$	3,403,472
Investments	7		**9,999,999**		-
Accounts receivable	8		**1,341,300**		1,289,933
		$	**27,029,133**	$	4,693,405
Financial liabilities			**Other liabilities**		
Accounts payable and accrued liabilities	11	**$**	**2,272,371**	$	1,577,158
Customer deposits	12		**116,300**		-
Long-term debt	13		**223,074**		243,632
		$	**2,611,745**	$	1,820,790

The estimated fair value of the long-term debt is $206,557 and has been estimated using a present value technique by discounting cash flows using interest rate of 3.5%, and is considered a level 2 fair value measurement.

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and customer deposits are considered a reasonable approximation of fair value.

5. FINANCIAL RISK MANAGEMENT (continued)

(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 currencies. 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 38% and 56% of the revenue for six months ended June 30, 2014 (six months ended June 30, 2013: 51% and 37% 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 $155,000 and $232,000 respectively for the six months ended June 30, 2014 (six months ended June 30, 2013: $120,000 and $90,000 respectively). A 5% change in the foreign exchange rates for the United States and European Union currencies for foreign currency denominated accounts receivable will impact net income by approximately $21,000 and $28,000 respectively as at June 30, 2014 (December 31, 2013: $18,000 and $44,000 respectively), and a similar change for foreign currency denominated accounts payable will impact net income by approximately $18,000 and $11,000 respectively as at June 30, 2014 (December 31, 2013: $17,000 and $22,000 respectively). The Company does not hedge its foreign exchange risk.

(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 plus 0.500% per annum. 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 impact net income as at June 30, 2014 by approximately $1,160 (December 31, 2013: $1,560) and inversely change the amount of principal repaid by the same amount.

The Company receives interest on its cash in the bank at an interest rate of 0.25%. A 1% change in the interest rate on the cash in the bank will impact net income as at June 30, 2014 by approximately $800 (December 31, 2013: $nil).

The Company receives interest on its investment in high interest saving accounts ("HISAs") at variable interest rate. A 1% change in the interest rate on the investment in HISAs will impact net income as at June 30, 2014 by approximately $95,000 (December 31, 2013: $nil).

The Company is not exposed to cash flow interest rate risk on fixed rate cash and cash equivalents and investments, and short term accounts receivable without interest.

(c) Liquidity risk

As at June 30, 2014, the Company had $15,687,834 cash. The cash used in operations during the six months ended June 30, 2014 was $2,162,205.

As at June 30, 2014, the Company had working capital of $25,575,094 as compared to working capital of $3,585,776 at December 31, 2013.

The Company monitors its cash flow on the monthly basis and compares actual performance to the budget for the fiscal year. The Company believes it has sufficient funds for the next 12 months but further into the future the Company is dependent on the profitable commercialization of its products or obtaining additional debt or equity financing to fund ongoing operations until profitability is achieved.

(Expressed in Canadian dollars)

5. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

As at June 30, 2014 and December 31, 2013, the Company's non-derivative financial liabilities have maturities (including interest payments where applicable) as summarized below:

	Current		Non-current	
June 30, 2014	Within 6 months	6 to 12 months	1 to 5 years	later than 5 years
Accounts payable and accrued liabilities	$ 2,272,371	$ -	$ -	$ -
Customer deposits	116,300	-	-	-
Long-term debt	21,813	22,274	178,987	-
	$ 2,410,484	$ 22,274	$ 178,987	$ -
December 31,2013				
Accounts payable and accrued liabilities	$ 1,577,158	$ -	$ -	$ -
Long-term debt	21,525	22,023	186,021	14,063
	$ 1,598,683	$ 22,023	$ 186,021	$ 14,063

(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, 2014: $1,220,239 (December 31, 2013: $1,237,996).

As at June 30, 2014, the Company had $nil (December 31, 2013: $29,354) of trade accounts receivable that was overdue, according to the customers' credit terms. During the three and six months ended June 30, 2014 the Company wrote down $218,501 (three and six months ended June 30, 2013: $nil) accounts receivable owed by customers.

The Company may also have credit risk related to its cash and cash equivalents with a maximum exposure of $15,687,834 (December 31, 2013: $3,403,472). The Company minimizes its risk by dealing with Canadian chartered banks.

6. CASH AND CASH EQUIVALENTS

	June 30, 2014	December 31, 2013
Canadian dollars	**$ 219,843**	$ 2,481,367
United States dollars	**177,678**	288,201
European euros	**751,659**	633,904
Cashable high interest savings accounts ("HISAs")	**9,538,654**	-
Guaranteed investment certificates ("GICs")	**5,000,000**	-
	$ 15,687,834	$ 3,403,472

The HISAs and GICs are issued by major Canadian Chartered Banks. The HISAs are fully cashable at any time and have a variable interest rate. The GICs are non-cashable, have a 180-day term, mature on September 23, 2014 and have a fixed interest of 1.20% per annum.

(Expressed in Canadian dollars)

7. INVESTMENTS

	June 30, 2014	December 31, 2013
Guaranteed investment certificates ("GICs")	**$ 9,999,999**	$ -
	$ 9,999,999	$ -

The GICs, issued by major Canadian Chartered Banks, are non-cashable, have 1 year term. Of these GICs, $4,999,999 will mature on March 27, 2015, and have a fixed interest rate of 1.47% per annum, and $5,000,000 will mature on June 25, 2015, and have a fixed interest rate of 1.47% per annum.

8. ACCOUNTS RECEIVABLE

	June 30, 2014	December 31, 2013
Net trade receivables	**$ 1,220,239**	$ 1,237,996
Accrued interest on GICs	**35,753**	-
Other receivables	**85,308**	51,937
	$ 1,341,300	$ 1,289,933

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

The aging analysis of receivables is as follows:

	June 30, 2014	December 31, 2013
Not past due	**$ 1,220,239**	$ 1,208,642
Past due 0 - 30 days	**-**	29,354
	$ 1,220,239	$ 1,237,996

All of the Company's trade and other receivables have been reviewed for impairment. During the three and six months ended June 30, 2014 the Company wrote down $218,501 accounts receivable owed by a customer, which the Company believes is not recoverable.

There was no allowance for doubtful accounts at June 30, 2014 or December 31, 2013 and there was no movement in the allowance for doubtful accounts in either period.

All accounts receivable are pledged as security for the long-term debt of the Company (see Note 13).

9. INVENTORY

	June 30, 2014	December 31, 2013
Raw materials	**$ 477,602**	$ 140,983
Work in progress	**277,588**	304,241
Finished goods	**79,850**	39,587
	$ 835,040	$ 484,811

During the three and six months ended June 30, 2014 $1,771,953 and $2,615,180 (three and six months ended June 30, 2013: $883,075 and $1,676,465) of inventory was expensed in cost of goods sold, and $461,014 and $739,124 (three and six months ended June 30, 2013: $112,211 and $190,654) of inventory was used in internal development projects and expensed in product development and clinical trial expenses.

During the three and six months ended June 30, 2014 and year ended December, 31, 2013 the Company did not write down any obsolete inventory.

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	Leasehold Improvements	Production equipment	Computer hardware	Computer software	Office equipment	Total
COST								
Balance at January 1, 2013	**$ 207,347**	**$ 1,299,642**	**$ -**	**$ 678,361**	**$ 217,111**	**$ 271,664**	**$ 170,133**	**$ 2,844,258**
Additions	-	327,363	76,958	448,295	101,279	37,013	50,280	1,041,188
Balance at December 31, 2013	**$ 207,347**	**$ 1,627,005**	**$ 76,958**	**$ 1,126,656**	**$ 318,390**	**$ 308,677**	**$ 220,413**	**$ 3,885,446**
Additions	-	16,870	10,000	184,751	86,938	6,660	11,784	317,003
Balance at June 30, 2014	**$ 207,347**	**$ 1,643,875**	**$ 86,958**	**$ 1,311,407**	**$ 405,328**	**$ 315,337**	**$ 232,197**	**$ 4,202,449**
ACCUMULATED DEPRECIATION								
Balance at January 1, 2013	**$ -**	**$ 301,053**	**$ -**	**$ 509,550**	**$ 161,221**	**$ 265,625**	**$ 139,437**	**$ 1,376,886**
Depreciation for the year	-	45,835	31,107	115,024	34,393	33,023	12,278	271,660
Balance at December 31, 2013	**$ -**	**$ 346,888**	**$ 31,107**	**$ 624,574**	**$ 195,614**	**$ 298,648**	**$ 151,715**	**$ 1,648,546**
Depreciation for the period	-	25,603	23,187	78,681	23,800	5,986	7,376	164,633
Balance at June 30, 2014	**$ -**	**$ 372,491**	**$ 54,294**	**$ 703,255**	**$ 219,414**	**$ 304,634**	**$ 159,091**	**$ 1,813,179**
CARRYING AMOUNTS								
At December 31, 2013	**$ 207,347**	**$ 1,280,117**	**$ 45,851**	**$ 502,082**	**$ 122,776**	**$ 10,029**	**$ 68,698**	**$ 2,236,900**
At June 30, 2014	**$ 207,347**	**$ 1,271,384**	**$ 32,664**	**$ 608,152**	**$ 185,914**	**$ 10,703**	**$ 73,106**	**$ 2,389,270**

All property, plant and equipment are pledged as security for the long-term debt of the Company (see Note 13).

(Expressed in Canadian dollars)

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2014	December 31, 2013
Trade payables	**$ 1,834,764**	$ 1,218,890
Accrued vacation	**319,567**	248,334
Accrued liabilities	**75,589**	84,130
Other payables	**42,451**	25,804
	$ 2,272,371	$ 1,577,158

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

12. CUSTOMER DEPOSITS

As at June 30, 2014, the Company has received an advanced payment from a customer in the amount of $116,300. This payment will be applied to invoices generated as the revenue is recognized.

13. LONG-TERM DEBT

	June 30, 2014	December 31, 2013
Bank installment loan	**$ 223,074**	$ 243,632
Less current portion	**(44,087)**	(43,548)
	$ 178,987	$ 200,084

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 September 27, 2013, is collateralized by a first charge over the Company's land and buildings 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, 2014	December 31, 2013
Year 1	**$ 44,087**	$ 43,548
Year 2	**45,356**	44,846
Year 3	**46,457**	45,935
Year 4	**47,584**	47,049
Year 5	**39,590**	48,191
Thereafter	**-**	14,063
	$ 223,074	$ 243,632

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

(Expressed in Canadian dollars)

14. SHARE CAPITAL

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

All preferred shares have no voting rights at the shareholder's meeting but on liquidation, winding-up or other distribution of the Company's assets are entitled to participate in priority to common shares. There are no preferred shares issued and outstanding.

(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, January 1, 2013	**45,827,040**	**$**	**70,421,185**	**$**	**8,370,258**
Issued for cash on exercise of warrants (i)	2,335,250		2,919,062		-
Issued for cash on exercise of options	52,790		71,144		(28,434)
Share-based payments	-		-		1,963,380
Balance, December 31, 2013	**48,215,080**	**$**	**73,411,391**	**$**	**10,305,204**
Issued for cash pursuant to bought deal prospectus offering (ii)	4,192,000		25,152,000		-
Share issue costs (ii)	-		(506,651)		-
Issued for cash on exercise of options	469,113		611,142		(472,364)
Issued on net exercise of options (iii)	833,805		177,300		(177,300)
Share-based payments	-		-		4,230,641
Balance, June 30, 2014	**53,709,998**	**$**	**98,845,182**	**$**	**13,886,181**

(i) In 2013 the Company issued 2,335,250 common shares, upon the exercise of warrants issued as part of the Company's August 2011 financing. Proceeds received from the exercise of the 2,335,250 warrants amounted to $2,919,062.

(ii) On March 26, 2014, the Company closed a bought deal equity prospectus offering underwritten by Cormark Securities Inc., which placed 4,192,000 common shares of Neovasc at a price of $6.00 per common share, for gross cash proceeds to the Company of $25,152,000. The share issue cost was $506,651.

(iii) On May 26, 2014 962,500 options were exercised under a net exercise provision in the stock option plan. Under this provision the Company issued fully paid and non-assessable common shares to the option holder equal to the number of options exercised multiplied by the quotient obtained by dividing the result of the market price of one common share on the date of the exercise less the exercise price per common share by the market price of one common share on the date of the exercise. This provision is anti-dilutive to the existing shareholders. The Company does not receive the cash proceeds from the exercise of the options but issues fewer common shares on the exercise of the options.

(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 18, 2014, at the Annual General Meeting ("AGM"), the board of directors and shareholders 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 10,515,860, representing approximately 20% of the number of common shares of the Company outstanding on May 16, 2014.

Options under the Company's stock option plan granted to directors, officers and employees vest immediately on the grant date, unless a vesting schedule is specified by the board. 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 ten 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, 2013	**7,767,787**	**$**	**0.85**	**2.91**
Granted	1,084,006		2.43	
Exercised	(52,790)		0.81	
Forfeited	(3,348)		1.63	
Expired	(10,735)		0.01	
Options outstanding, December 31, 2013	**8,784,920**	**$**	**1.04**	**2.20**
Granted	1,895,000		6.54	
Exercised for cash	(469,113)		0.30	
Exercised under net exercise provision (i)	(962,500)		0.95	
Forfeited	(1,872)		1.98	
Options outstanding, June 30, 2014	**9,246,435**	**$**	**2.23**	**2.60**
Options exercisable, June 30, 2014	**7,034,543**	**$**	**1.38**	**2.10**

The following table lists the options outstanding at June 30, 2014 by exercise price:

	Exercise price	**Options outstanding**	**Weighted average remaining term (yrs)**	**Options exercisable**	**Weighted average remaining term (yrs)**
$	0.01	338,854	2.61	338,854	2.61
$	0.20-0.40	1,791,225	0.69	1,791,225	0.69
$	0.97-1.60	4,141,350	2.14	3,769,013	1.89
$	2.00-4.25	1,080,006	3.78	696,451	3.71
$	6.50-7.00	1,895,000	4.80	439,000	4.80
		9,246,435		7,034,543	

(i) On May 26, 2014 962,500 options were exercised under a net exercise provision in the stock option plan. Under this provision the Company issued fully paid and non-assessable common shares to the option holder equal to the number of options exercised multiplied by the quotient obtained by dividing the result of the market price of one common share on the date of the exercise less the exercise price per common share by the market price of one common share on the date of the exercise. This provision is anti-dilutive to the existing shareholders. The Company does not receive the cash proceeds from the exercise of the options but issues fewer common shares on the exercise of the options.

(Expressed in Canadian dollars)

14. SHARE CAPITAL (continued)

(c) Stock options (continued)

The weighted average share price at the date of exercise for share options exercised for the six months ended June 30, 2014 was $0.74 (six months ended June 30, 2013: $0.68). During the three and six months ended June 30, 2014, the Company recorded $4,065,680 and $4,230,641 as compensation expense for share-based compensation awarded to eligible optionees (three and six months ended June 30, 2013: $299,254 and $1,335,721). 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:

	June 30, 2014	December 31, 2013
Weighted average fair value	$ 5.23	$ 2.26
Dividend yield	nil	nil
Volatility	112%	140%
Risk-free interest rate	1.25%	1.25%
Expected life	5 years	5 years
Estimated Forfeiture rate	0%	0%

(d) Warrants

In 2013 the Company issued 2,335,250 common shares upon the exercise of warrants issued as part of the Company's August 2011 financing. Proceeds received from the exercise of the 2,335,250 warrants amounted to $2,919,062.

15. 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:

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	**2014**	2013
REVENUE				
United States	**$ 1,128,911**	$ 822,031	**$ 2,050,594**	$ 1,774,640
Europe	**3,145,803**	1,907,352	**5,963,399**	2,955,428
Israel	**129,801**	63,432	**226,657**	72,127
	$ 4,404,515	$ 2,792,815	**$ 8,240,650**	$ 4,802,195

Sales to the Company's four largest customers accounted for approximately 35%, 22%, 18%, and 16% of the Company's sales for the three months ended June 30, 2014, and 36%, 21%, 18%, and 14% of the Company's sales for the six months ended June 30, 2014. Comparatively, sales to the Company's four largest customers accounted for approximately 33%, 27%, 16%, and 11% of the Company's sales for the three months ended June 30, 2013 and 31%, 28%, 15% and 12% of the Company's sales for the six months ended June 30, 2013.

(Expressed in Canadian dollars)

16. EMPLOYEE BENEFITS EXPENSE

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	**2014**	2013
Salaries and wages	**$ 1,630,966**	$ 1,148,291	**$ 3,177,342**	$ 2,154,584
Canadian pension plan and employment insurance	**96,094**	64,037	**193,880**	130,300
Contribution to defined contribution pension plan	**34,053**	23,098	**61,710**	44,492
Cash-based employee expenses	**1,761,113**	1,235,426	**3,432,932**	2,329,376
Share-based payments	**4,065,680**	299,254	**4,230,641**	1,335,721
	$ 5,826,793	$ 1,534,680	**$ 7,663,573**	$ 3,665,097

17. DEPRECIATION AND SHARE-BASED PAYMENTS

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	**2014**	2013
COST OF GOODS SOLD				
Depreciation	**$ 30,001**	$ 5,557	**$ 56,860**	$ 10,542
Share-based payments	**96,811**	35,406	**129,513**	86,292
Cash-based employee expenses	**883,250**	558,341	**1,666,431**	1,014,062
Other costs	**2,056,862**	1,032,851	**3,128,642**	1,756,540
TOTAL COST OF GOODS SOLD	**$ 3,066,924**	$ 1,632,155	**$ 4,981,446**	$ 2,867,436
EXPENSES				
Selling expenses				
Depreciation	**$ 96**	$ 138	**$ 192**	$ 275
Share-based payments	**5,112**	2,429	**6,342**	4,825
Cash-based employee expenses	**18,117**	16,432	**35,612**	32,862
Other expenses	**1,088**	12,686	**2,182**	14,730
	24,413	31,685	**44,328**	52,692
General and administrative expenses				
Depreciation	**23,099**	19,738	**44,927**	34,546
Share-based payments	**2,802,674**	200,187	**2,856,893**	1,079,003
Cash-based employee expenses	**369,302**	310,392	**815,578**	615,923
Other expenses	**1,449,312**	398,346	**2,023,443**	924,923
	4,644,387	928,663	**5,740,841**	2,654,395
Product development and clinical trials expenses				
Depreciation	**32,777**	25,897	**62,654**	41,963
Share-based payments	**1,161,083**	61,232	**1,237,893**	165,601
Cash-based employee expenses	**490,444**	350,261	**915,311**	666,529
Other expenses	**1,429,403**	1,176,219	**2,131,051**	1,728,087
	3,113,707	1,613,609	**4,346,909**	2,602,180
TOTAL EXPENSES	**$ 7,782,507**	$ 2,573,957	**$ 10,132,078**	$ 5,309,267
Depreciation per Statements of Cash Flows	**$ 85,973**	$ 51,330	**$ 164,633**	$ 87,326
Share-based payments per Statements of Cash Flows	**$ 4,065,680**	$ 299,254	**$ 4,230,641**	$ 1,335,721
Cash-based employee expenses (see Note 16)	**$ 1,761,113**	$ 1,235,426	**$ 3,432,932**	$ 2,329,376

(Expressed in Canadian dollars)

18. OPERATING LEASES

The Company entered into an agreement for additional office space in October 2012. The agreement does not contain any contingent rent clauses, renewal or purchase options or escalation clauses. The term of the lease is 24 months commenced from October 1, 2012.

The Company entered into another agreement for additional office space in August 2013. The agreement does not contain any contingent rent clauses, renewal or purchase options or escalation clauses. The term of the lease is 24 months commencing on August 1, 2013.

The Company entered into another agreement for additional office space in June 2014. The agreement does not contain any contingent rent clauses, renewal or purchase options or escalation clauses. The term of the lease is 36 months commencing on July 1, 2014.

The future minimum operating lease payments due over the next three years are as follows:

	As at June 30, **2014**	2013
Year 1	**$ 152,288**	$ 20,660
Year 2	**162,180**	6,887
Year 3	**160,380**	-
	$ 474,848	$ 27,547

Lease payments recognized as an expense during the three and six months ended June 30, 2014 amount to $9,458 and $20,728 (three and six months ended June 30, 2013: $5,165 and 10,330).

19. 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, 2014 amounted to 53,005,338 and 50,796,149 shares (three and six months ended June 30, 2013: 47,324,670 and 46,599,612 shares).

	For the three months ended June 30, **2014**	For the three months ended June 30, 2013	For the six months ended June 30, **2014**	For the six months ended June 30, 2013
Weighted average number of common shares	**53,005,338**	47,324,670	**50,796,149**	46,599,612
Loss for the period	**(6,471,911)**	(1,238,393)	**(6,851,983)**	(3,098,549)
Basic loss per share	**$ (0.12)**	$ (0.03)	**$ (0.13)**	$ (0.07)

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.

(Expressed in Canadian dollars)

20. 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.

	For the three months ended June 30, **2014**	2013	For the six months ended June 30, **2014**	2013
Short-term employee benefits				
Employee salaries and bonuses	**$ 278,281**	$ 180,062	**$ 506,991**	$ 376,875
Directors fees	**32,028**	16,302	**65,187**	31,536
Social security and medical care costs	**7,913**	2,782	**20,675**	15,351
	318,222	199,146	**592,853**	423,762
Post-employment benefits				
Contributions to defined contribution pension plan	**12,322**	6,910	**19,858**	14,133
Share-based payments	**3,148,481**	56,506	**3,149,592**	852,460
Total key management remuneration	**$ 3,479,025**	$ 262,562	**$ 3,762,303**	$ 1,290,355

21. AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the three and six months ended June 30, 2014 (including comparatives) were approved by the audit committee on behalf of the board of directors on August 12, 2014.

(signed) ***Alexei Marko***

Alexei Marko, Director

(signed) ***Steve Rubin***

Steve Rubin, Director