



# **Neovasc Inc.**

## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2014 AND 2013**

**(Expressed in Canadian dollars)**

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# NEOVASC INC.

## Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(Expressed in Canadian dollars)

	Notes	September 30, 2014	December 31, 2013 (Audited)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	\$ 9,723,488	\$ 3,403,472
Investments	7	11,999,999	-
Accounts receivable	8	2,248,688	1,289,933
Inventory	9	743,260	484,811
Prepaid expenses and other assets		236,451	28,266
<b>Total current assets</b>		<b>24,951,886</b>	<b>5,206,482</b>
<b>Non-current assets</b>			
Property, plant and equipment	10	2,545,464	2,236,900
<b>Total non-current assets</b>		<b>2,545,464</b>	<b>2,236,900</b>
<b>Total assets</b>		<b>\$ 27,497,350</b>	<b>\$ 7,443,382</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	11	\$ 1,677,545	\$ 1,577,158
Current portion of long-term debt	12	44,368	43,548
<b>Total current liabilities</b>		<b>1,721,913</b>	<b>1,620,706</b>
<b>Non-current liabilities</b>			
Long-term debt	12	168,305	200,084
<b>Total non-current liabilities</b>		<b>168,305</b>	<b>200,084</b>
<b>Total liabilities</b>		<b>1,890,218</b>	<b>1,820,790</b>
<b>Equity</b>			
Share capital	13	98,974,133	73,411,391
Contributed surplus	13	16,167,530	10,305,204
Deficit		(89,534,531)	(78,094,003)
<b>Total equity</b>		<b>25,607,132</b>	<b>5,622,592</b>
<b>Total liabilities and equity</b>		<b>\$ 27,497,350</b>	<b>\$ 7,443,382</b>

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

# NEOVASC INC.

## Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)

For the three and nine months ended September 30,  
(Expressed in Canadian dollars)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2014	2013	2014	2013
<b>REVENUE</b>					
Product sales		\$ 471,468	\$ 654,809	\$ 1,965,387	\$ 2,011,688
Contract manufacturing		1,366,552	583,466	2,273,493	1,679,976
Consulting services		2,431,340	2,395,616	8,271,130	4,744,422
	14	<b>4,269,360</b>	3,633,891	<b>12,510,010</b>	8,436,086
<b>COST OF GOODS SOLD</b>					
	16	<b>2,468,747</b>	2,160,092	<b>7,450,193</b>	5,027,528
<b>GROSS PROFIT</b>					
		<b>1,800,613</b>	1,473,799	<b>5,059,817</b>	3,408,558
<b>EXPENSES</b>					
Selling expenses	16	19,285	7,366	63,613	60,058
General and administrative expenses	16	2,916,141	1,009,473	8,656,982	3,663,868
Product development and clinical trials expenses	16	3,488,051	1,878,943	7,834,960	4,481,123
		<b>6,423,477</b>	2,895,782	<b>16,555,555</b>	8,205,049
<b>OPERATING LOSS</b>					
		<b>(4,622,864)</b>	(1,421,983)	<b>(11,495,738)</b>	(4,796,491)
<b>OTHER INCOME/(EXPENSE)</b>					
Interest income		77,897	-	153,835	-
Interest expense		(1,883)	(2,240)	(5,895)	(6,951)
Loss on disposal of property and equipment		(32,022)	-	(32,022)	-
(Loss)/gain on foreign exchange		(9,673)	(15,603)	(60,708)	265,067
		<b>34,319</b>	(17,843)	<b>55,210</b>	258,116
<b>LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>					
		<b>\$ (4,588,545)</b>	\$ (1,439,826)	<b>\$(11,440,528)</b>	\$ (4,538,375)
<b>LOSS PER SHARE</b>					
Basic and diluted loss per share	18	<b>\$ (0.09)</b>	\$ (0.03)	<b>\$ (0.22)</b>	\$ (0.10)

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
<b>Balance at January 1, 2013</b>		<b>\$ 70,421,185</b>	<b>\$ 8,370,258</b>	<b>\$ (71,343,753)</b>	<b>\$ 7,447,690</b>
Issue of share capital on exercise of warrants		2,919,062	-	-	2,919,062
Issue of share capital on exercise of options		58,444	(27,234)	-	31,210
Share-based payments		-	1,581,369	-	1,581,369
		<u>2,977,506</u>	<u>1,554,135</u>	<u>-</u>	<u>4,531,641</u>
<b>Loss and comprehensive loss for the period</b>		<b>-</b>	<b>-</b>	<b>(4,538,375)</b>	<b>(4,538,375)</b>
<b>Balance at September 30, 2013</b>		<b>\$ 73,398,691</b>	<b>\$ 9,924,393</b>	<b>\$ (75,882,128)</b>	<b>\$ 7,440,956</b>
<b>Balance at January 1, 2014</b>		<b>\$ 73,411,391</b>	<b>\$ 10,305,204</b>	<b>\$ (78,094,003)</b>	<b>\$ 5,622,592</b>
Issue of share capital pursuant to a bought deal prospectus offering	13	25,152,000	-	-	25,152,000
Share issue costs	13	(506,651)	-	-	(506,651)
Issue of share capital on exercise of options	13	917,393	(754,009)	-	163,384
Share-based payments	13	-	6,616,335	-	6,616,335
		<u>25,562,742</u>	<u>5,862,326</u>	<u>-</u>	<u>31,425,068</u>
<b>Loss and comprehensive loss for the period</b>		<b>-</b>	<b>-</b>	<b>(11,440,528)</b>	<b>(11,440,528)</b>
<b>Balance at September 30, 2014</b>		<b>\$ 98,974,133</b>	<b>\$ 16,167,530</b>	<b>\$ (89,534,531)</b>	<b>\$ 25,607,132</b>

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

# NEOVASC INC.

## Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

For the three and nine months ended September 30,  
(Expressed in Canadian dollars)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2014	2013	2014	2013
<b>OPERATING ACTIVITIES</b>					
Loss for the period		\$ (4,588,545)	\$ (1,439,826)	\$ (11,440,528)	\$ (4,538,375)
Adjustments for:					
Depreciation	16	96,638	89,503	261,271	176,829
Share-based payments	16	2,385,694	245,648	6,616,335	1,581,369
Loss on disposal of property and equipment	10	32,022	-	32,022	-
Interest income		(77,897)	-	(153,835)	-
Interest expense		1,883	2,240	5,895	6,951
		<u>(2,150,205)</u>	<u>(1,102,435)</u>	<u>(4,678,840)</u>	<u>(2,773,226)</u>
Net change in non-cash working capital items:					
Accounts receivable		(885,334)	(425,371)	(900,948)	(879,689)
Inventory		91,780	(41,670)	(258,449)	(286,143)
Prepaid expenses and other assets		(92,772)	63,032	(208,185)	(28,276)
Accounts payable and accrued liabilities		(594,826)	(65,188)	100,387	369,264
Customer Deposits		(116,300)	-	-	-
		<u>(1,597,452)</u>	<u>(469,197)</u>	<u>(1,267,195)</u>	<u>(824,844)</u>
Interest paid and received:					
Interest received		55,843	-	96,028	-
Interest paid		(1,883)	(2,240)	(5,895)	(6,951)
		<u>53,960</u>	<u>(2,240)</u>	<u>90,133</u>	<u>(6,951)</u>
		<u>(3,693,697)</u>	<u>(1,573,872)</u>	<u>(5,855,902)</u>	<u>(3,605,021)</u>
<b>INVESTING ACTIVITIES</b>					
Investment in guaranteed investment certificates	7	(2,000,000)	-	(11,999,999)	-
Purchase of property, plant and equipment	10	(284,854)	(111,150)	(601,857)	(1,004,182)
		<u>(2,284,854)</u>	<u>(111,150)</u>	<u>(12,601,856)</u>	<u>(1,004,182)</u>
<b>FINANCING ACTIVITIES</b>					
Decrease in bank overdraft		-	(80,110)	-	-
Repayment of long-term debt		(10,401)	(10,045)	(30,959)	(29,904)
Proceeds from share issue pursuant to a bought deal prospectus offering, net of share issue costs of \$506,651	13	-	-	24,645,349	-
Proceeds from exercise of warrants	13	-	472,187	-	2,919,062
Proceeds from exercise of options	13	24,606	7,498	163,384	31,210
		<u>14,205</u>	<u>389,530</u>	<u>24,777,774</u>	<u>2,920,368</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>(5,964,346)</b>	<b>(1,295,492)</b>	<b>6,320,016</b>	<b>(1,688,835)</b>
<b>CASH AND CASH EQUIVALENTS</b>					
Beginning of the period		15,687,834	5,467,777	3,403,472	5,861,120
End of the period		<u>\$ 9,723,488</u>	<u>\$ 4,172,285</u>	<u>\$ 9,723,488</u>	<u>\$ 4,172,285</u>
Represented by:					
Cash		\$ 628,990	\$ 4,172,285	\$ 628,990	\$ 4,172,285
Cashable high interest savings accounts		9,094,498	-	9,094,498	-
	6	<u>\$ 9,723,488</u>	<u>\$ 4,172,285</u>	<u>\$ 9,723,488</u>	<u>\$ 4,172,285</u>

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

(Expressed in Canadian dollars)

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### 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 September 30, 2014 and December 31, 2013 and for the three and nine months ended September 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 5138 - 13562 Maycrest Way, Richmond, British Columbia, V6V 2J7 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 nine months ended September 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 Loss and Comprehensive Loss' in a single statement.

#### (d) Significant judgments, estimates and assumptions

When preparing interim consolidated financial statements, management makes a number of judgments, estimates and assumptions determination of the net realizable value of inventory, 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. Actual financial results may not equal the estimated results due to differences between estimated or anticipated events and actual events. The judgments, estimates and assumptions made in preparation of these condensed interim consolidated financial statements were similar to those made in the preparation of the Company's annual financial statements for the year ended December 31, 2013.

### 3. CHANGES IN ACCOUNTING POLICIES

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

# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

(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:

	Notes	September 30, 2014	December 31, 2013
Equity		\$ 25,607,132	\$ 5,622,592
Long-term debt	12	212,673	243,632
		<u>\$ 25,819,805</u>	<u>\$ 5,866,224</u>

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 September 30, 2014 and December 31, 2013, the Company was in compliance with all financial covenants associated with its long-term debt.

For the nine months ended September 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	September 30, 2014	December 31, 2013
<b>Financial assets</b>			
		<b>Loans and receivables</b>	
Cash and cash equivalents	6	\$ 9,723,488	\$ 3,403,472
Investments	7	11,999,999	-
Accounts receivable	8	2,248,688	1,289,933
		<u>\$ 23,972,175</u>	<u>\$ 4,693,405</u>
<b>Financial liabilities</b>			
		<b>Other liabilities</b>	
Accounts payable and accrued liabilities	11	\$ 1,677,545	\$ 1,577,158
Long-term debt	12	212,673	243,632
		<u>\$ 1,890,218</u>	<u>\$ 1,820,790</u>

The estimated fair value of the long-term debt is \$196,187 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.



# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

(Expressed in Canadian dollars)

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### 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 39% and 52% of the revenue for nine months ended September 30, 2014 (nine months ended September 30, 2013: 45% and 43% 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 \$241,000 and \$324,000 respectively for the nine months ended September 30, 2014 (nine months ended September 30, 2013: \$190,000 and \$180,000 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 \$19,000 and \$47,000 respectively as at September 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 \$13,000 and \$1,800 respectively as at September 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 12). Included in the repayments is an interest payment with an interest rate floating at prime rate plus 0.5% 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 September 30, 2014 by approximately \$2,100 (December 31, 2013: \$2,430) 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 September 30, 2014 by approximately \$690 (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 September 30, 2014 by approximately \$91,000 (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 September 30, 2014, the Company had cash and cash equivalent of \$9,723,488. The cash used in operations during the nine months ended September 30, 2014 was \$5,855,902.

As at September 30, 2014, the Company had working capital of \$23,229,973 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.

# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

(Expressed in Canadian dollars)

### 5. FINANCIAL RISK MANAGEMENT (continued)

#### (c) Liquidity risk (continued)

As at September 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	
	Within 6 months	6 to 12 months	1 to 5 years	later than 5 years
<b>September 30, 2014</b>				
Accounts payable and accrued liabilities	\$ 1,677,545	\$ -	\$ -	\$ -
Long-term debt	21,968	22,400	168,305	-
	<u>\$ 1,699,513</u>	<u>\$ 22,400</u>	<u>\$ 168,305</u>	<u>\$ -</u>
<b>December 31, 2013</b>				
Accounts payable and accrued liabilities	\$ 1,577,158	\$ -	\$ -	\$ -
Long-term debt	21,525	22,023	186,021	14,063
	<u>\$ 1,598,683</u>	<u>\$ 22,023</u>	<u>\$ 186,021</u>	<u>\$ 14,063</u>

#### (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 September 30, 2014: \$1,965,304 (December 31, 2013: \$1,237,996).

As at September 30, 2014, the Company had \$15,932 (December 31, 2013: \$29,354) of trade accounts receivable that was overdue, according to the customers' credit terms. During the three and nine months ended September 30, 2014 the Company wrote down \$nil and \$218,501 of accounts receivable owed by customers, respectively, (three and nine months ended September 30, 2013: \$nil).

The Company may also have credit risk related to its cash and cash equivalents with a maximum exposure of \$9,723,488 (December 31, 2013: \$3,403,472), and related to its investments with a maximum exposure of \$11,999,999 (December 31, 2013: \$nil). The Company minimizes its risk by dealing with Canadian chartered banks.

### 6. CASH AND CASH EQUIVALENTS

	September 30, 2014	December 31, 2013
Canadian dollars	\$ 70,053	\$ 2,481,367
United States dollars	549,244	288,201
European euros	9,693	633,904
Cashable high interest savings accounts ("HISAs")	9,094,498	-
	<u>\$ 9,723,488</u>	<u>\$ 3,403,472</u>

The HISAs are issued by major Canadian Chartered Banks. The HISAs are fully cashable at any time and have a variable interest rate.

# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

(Expressed in Canadian dollars)

### 7. INVESTMENTS

	<b>September 30, 2014</b>	December 31, 2013
Guaranteed investment certificates ("GICs")	<b>\$ 11,999,999</b>	\$ -

The GICs, issued by major Canadian Chartered Banks, are non-cashable and 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, \$5,000,000 will mature on June 25, 2015, and have a fixed interest rate of 1.47% per annum, and \$2,000,000 will mature on September 23, 2015, and have a fixed interest rate of 1.61% per annum.

### 8. ACCOUNTS RECEIVABLE

	<b>September 30, 2014</b>	December 31, 2013
Net trade receivables	<b>\$ 1,965,304</b>	\$ 1,237,996
Accrued interest on GICs	<b>57,807</b>	-
Other receivables	<b>225,577</b>	51,937
	<b>\$ 2,248,688</b>	\$ 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:

	<b>September 30, 2014</b>	December 31, 2013
Not past due	<b>\$ 1,949,372</b>	\$ 1,208,642
Past due 0 - 30 days	<b>15,932</b>	29,354
	<b>\$ 1,965,304</b>	\$ 1,237,996

All of the Company's trade and other receivables have been reviewed for impairment. During the nine months ended September 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 September 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 12).

### 9. INVENTORY

	<b>September 30, 2014</b>	December 31, 2013
Raw materials	<b>\$ 463,478</b>	\$ 140,983
Work in progress	<b>205,517</b>	304,241
Finished goods	<b>74,265</b>	39,587
	<b>\$ 743,260</b>	\$ 484,811

During the three and nine months ended September 30, 2014, \$1,318,537 and \$3,933,717 of inventory was expensed in cost of goods sold (three and nine months ended September 30, 2013: \$937,276 and \$2,613,741), and \$637,272 and \$1,376,396 of inventory was used in internal development projects and expensed in product development and clinical trial expenses (three and nine months ended September 30, 2013: \$205,773 and \$396,427).

During the three and nine months ended September 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 12).

# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

(Expressed in Canadian dollars)

### 10. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Leasehold improvements	Production equipment	Computer hardware	Computer software	Office equipment	Total
<b>COST</b>								
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
<b>Balance at December 31, 2013</b>	<b>\$ 207,347</b>	<b>\$ 1,627,005</b>	<b>\$ 76,958</b>	<b>\$ 1,126,656</b>	<b>\$ 318,390</b>	<b>\$ 308,677</b>	<b>\$ 220,413</b>	<b>\$ 3,885,446</b>
Additions	-	64,115	10,000	276,759	139,500	31,486	79,997	601,857
Disposals	-	-	(76,958)	-	-	-	(29,553)	(106,511)
<b>Balance at September 30, 2014</b>	<b>\$ 207,347</b>	<b>\$ 1,691,120</b>	<b>\$ 10,000</b>	<b>\$ 1,403,415</b>	<b>\$ 457,890</b>	<b>\$ 340,163</b>	<b>\$ 270,857</b>	<b>\$ 4,380,792</b>
<b>ACCUMULATED DEPRECIATION</b>								
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
<b>Balance at December 31, 2013</b>	<b>\$ -</b>	<b>\$ 346,888</b>	<b>\$ 31,107</b>	<b>\$ 624,574</b>	<b>\$ 195,614</b>	<b>\$ 298,648</b>	<b>\$ 151,715</b>	<b>\$ 1,648,546</b>
Depreciation for the period	-	38,403	34,780	121,659	40,732	14,297	11,400	261,271
Disposals	-	-	(65,887)	-	-	-	(8,602)	(74,489)
<b>Balance at September 30, 2014</b>	<b>\$ -</b>	<b>\$ 385,291</b>	<b>\$ -</b>	<b>\$ 746,233</b>	<b>\$ 236,346</b>	<b>\$ 312,945</b>	<b>\$ 154,513</b>	<b>\$ 1,835,328</b>
<b>CARRYING AMOUNTS</b>								
At December 31, 2013	\$ 207,347	\$ 1,280,117	\$ 45,851	\$ 502,082	\$ 122,776	\$ 10,029	\$ 68,698	\$ 2,236,900
At September 30, 2014	\$ 207,347	\$ 1,305,829	\$ 10,000	\$ 657,182	\$ 221,544	\$ 27,218	\$ 116,344	\$ 2,545,464

All property, plant and equipment are pledged as security for the long-term debt of the Company (see Note 12).

# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

(Expressed in Canadian dollars)

### 11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<b>September 30, 2014</b>	December 31, 2013
Trade payables	\$ 1,115,398	\$ 1,218,890
Accrued vacation	305,646	248,334
Accrued liabilities	229,798	84,130
Other payables	26,703	25,804
	<b>\$ 1,677,545</b>	<b>\$ 1,577,158</b>

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

### 12. LONG-TERM DEBT

	<b>September 30, 2014</b>	December 31, 2013
Bank installment loan	\$ 212,673	\$ 243,632
Less current portion	(44,368)	(43,548)
	<b>\$ 168,305</b>	<b>\$ 200,084</b>

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 0.5% per annum.

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

	<b>September 30, 2014</b>	December 31, 2013
Year 1	\$ 44,368	\$ 43,548
Year 2	45,614	44,846
Year 3	46,721	45,935
Year 4	47,855	47,049
Year 5	28,115	48,191
Thereafter	-	14,063
	<b>\$ 212,673</b>	<b>\$ 243,632</b>

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

# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

(Expressed in Canadian dollars)

### 13. 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		Contributed
	Number	Amount	Surplus
<b>Balance, January 1, 2013</b>	<b>45,827,040</b>	<b>\$ 70,421,185</b>	<b>\$ 8,370,258</b>
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
<b>Balance, December 31, 2013</b>	<b>48,215,080</b>	<b>\$ 73,411,391</b>	<b>\$ 10,305,204</b>
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	516,047	740,093	(576,709)
Issued on net exercise of options (iii)	833,805	177,300	(177,300)
Share-based payments	-	-	6,616,335
<b>Balance, September 30, 2014</b>	<b>53,756,932</b>	<b>\$ 98,974,133</b>	<b>\$ 16,167,530</b>

- (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 costs were \$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 cash proceeds from the exercise of the options but issues fewer common shares on the exercise of the options.

# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

(Expressed in Canadian dollars)

### 13. 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)
<b>Options outstanding, January 1, 2013</b>	<b>7,767,787</b>	<b>\$ 0.85</b>	<b>2.91</b>
Granted	1,084,006	2.43	
Exercised	(52,790)	0.81	
Forfeited	(3,348)	1.63	
Expired	(10,735)	0.01	
<b>Options outstanding, December 31, 2013</b>	<b>8,784,920</b>	<b>\$ 1.04</b>	<b>2.20</b>
Granted	2,075,000	6.54	
Exercised for cash	(516,047)	0.32	
Exercised under net exercise provision (i)	(962,500)	0.95	
Forfeited	(20,372)	3.23	
<b>Options outstanding, September 30, 2014</b>	<b>9,361,001</b>	<b>\$ 2.32</b>	<b>2.40</b>
<b>Options exercisable, September 30, 2014</b>	<b>7,250,746</b>	<b>\$ 1.40</b>	<b>1.87</b>

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

Exercise price	Options outstanding	Weighted average remaining term (yrs)	Options exercisable	Weighted average remaining term (yrs)
\$ 0.01	300,920	2.26	300,920	2.26
\$ 0.20-0.40	1,791,225	0.43	1,791,225	0.43
\$ 0.97-1.60	4,141,350	1.89	3,996,650	1.68
\$ 2.00-4.25	1,055,006	3.52	687,451	3.45
\$ 6.50-7.00	2,072,500	4.58	474,500	4.58
	<b>9,361,001</b>		<b>7,250,746</b>	

- (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 cash proceeds from the exercise of the options but issues fewer common shares on the exercise of the options.

# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

(Expressed in Canadian dollars)

### 13. SHARE CAPITAL (continued)

#### (c) Stock options (continued)

The weighted average share price at the date of exercise for share options exercised for the nine months ended September 30, 2014 was \$6.76 (nine months ended September 30, 2013: \$1.92). During the three and nine months ended September 30, 2014, the Company recorded \$2,385,694 and \$6,616,335 as compensation expense for share-based compensation awarded to eligible optionees (three and nine months ended September 30, 2013: \$245,648 and \$1,581,369). 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:

	September 30, 2014	December 31, 2013
Weighted average fair value	\$ 5.21	\$ 2.26
Dividend yield	nil	nil
Volatility	101%	140%
Risk-free interest rate	1.75%	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.

### 14. 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 in the United States. The Company earns revenue from sales to customers in the following geographic locations:

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
<b>REVENUE</b>				
United States	\$ 1,275,137	\$ 663,605	\$ 3,325,731	\$ 2,438,245
Europe	2,862,085	2,868,847	8,825,484	5,824,275
Israel	132,138	101,439	358,795	173,566
	<b>\$ 4,269,360</b>	<b>\$ 3,633,891</b>	<b>\$ 12,510,010</b>	<b>\$ 8,436,086</b>

Sales to the Company's four largest customers accounted for approximately 38%, 21%, 14%, and 11% of the Company's sales for the three months ended September 30, 2014, and 37%, 21%, 16%, and 14% of the Company's sales for the nine months ended September 30, 2014. Comparatively, sales to the Company's three largest customers accounted for approximately 45%, 18%, and 15% of the Company's sales for the three months ended September 30, 2013 and 37%, 24%, and 15% of the Company's sales for the nine months ended September 30, 2013.



# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

(Expressed in Canadian dollars)

### 15. EMPLOYEE BENEFITS EXPENSE

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Salaries and wages	\$ 1,811,274	\$ 1,291,538	\$ 4,988,616	\$ 3,446,122
Canadian pension plan and employment insurance	84,863	63,781	278,743	194,081
Contribution to defined contribution pension plan	32,786	26,516	94,496	71,008
Cash-based employee expenses	1,928,923	1,381,835	5,361,855	3,711,211
Share-based payments	2,385,694	245,648	6,616,335	1,581,369
	<b>\$ 4,314,617</b>	<b>\$ 1,627,483</b>	<b>\$ 11,978,190</b>	<b>\$ 5,292,580</b>

### 16. DEPRECIATION AND SHARE-BASED PAYMENTS

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
<b>COST OF GOODS SOLD</b>				
Depreciation	\$ 31,996	\$ 30,844	\$ 88,856	\$ 41,386
Share-based payments	74,243	25,153	203,756	111,445
Cash-based employee expenses	910,863	692,624	2,577,294	1,706,686
Other costs	1,451,645	1,411,471	4,580,287	3,168,011
<b>TOTAL COST OF GOODS SOLD</b>	<b>\$ 2,468,747</b>	<b>\$ 2,160,092</b>	<b>\$ 7,450,193</b>	<b>\$ 5,027,528</b>
<b>EXPENSES</b>				
<b>Selling expenses</b>				
Depreciation	\$ 96	\$ 137	\$ 288	\$ 412
Share-based payments	1,994	1,131	8,336	5,956
Cash-based employee expenses	16,024	16,557	51,636	49,419
Other expenses	1,171	(10,459)	3,353	4,271
	<b>19,285</b>	<b>7,366</b>	<b>63,613</b>	<b>60,058</b>
<b>General and administrative expenses</b>				
Depreciation	23,583	23,351	68,510	57,897
Share-based payments	1,075,085	172,334	3,931,978	1,251,337
Cash-based employee expenses	351,753	333,855	1,167,331	949,778
Other expenses	1,465,720	479,933	3,489,163	1,404,856
	<b>2,916,141</b>	<b>1,009,473</b>	<b>8,656,982</b>	<b>3,663,868</b>
<b>Product development and clinical trials expenses</b>				
Depreciation	40,963	35,171	103,617	77,134
Share-based payments	1,234,372	47,030	2,472,265	212,631
Cash-based employee expenses	650,283	338,799	1,565,594	1,005,328
Other expenses	1,562,433	1,457,943	3,693,484	3,186,030
	<b>3,488,051</b>	<b>1,878,943</b>	<b>7,834,960</b>	<b>4,481,123</b>
<b>TOTAL EXPENSES</b>	<b>\$ 6,423,477</b>	<b>\$ 2,895,782</b>	<b>\$ 16,555,555</b>	<b>\$ 8,205,049</b>
Depreciation per Statements of Cash Flows	\$ 96,638	\$ 89,503	\$ 261,271	\$ 176,829
Share-based payments per Statements of Cash Flows	\$ 2,385,694	\$ 245,648	\$ 6,616,335	\$ 1,581,369
Cash-based employee expenses (see Note 15)	\$ 1,928,923	\$ 1,381,835	\$ 5,361,855	\$ 3,711,211

# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

(Expressed in Canadian dollars)

### 17. OPERATING LEASES

The Company entered into an 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 an 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 October 1, 2014.

The Company entered into an agreement for additional office space in September 2014 in Minneapolis, MN. The agreement does not contain any contingent rent clauses, renewal or purchase options or escalation clauses. The term of the lease is 66 months commencing on September 1, 2014.

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

	As at September 30,	
	2014	2013
Year 1	\$ 176,467	\$ 32,000
Year 2	206,279	9,450
Year 3	207,656	-
Year 4	48,694	-
Year 5	50,155	-
Thereafter	21,472	-
	<u>\$ 710,723</u>	<u>\$ 41,450</u>

Lease payments recognized as an expense during the three and nine months ended September 30, 2014 amount to \$40,243 and \$60,971 (three and nine months ended September 30, 2013: \$7,055 and \$17,835).

### 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 nine months ended September 30, 2014 amounted to 53,746,575 and 51,790,432 shares (three and nine months ended September 30, 2013: 48,008,763 and 47,074,491 shares).

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Weighted average number of common shares	53,746,575	48,008,763	51,790,432	47,074,491
Loss for the period	(4,588,545)	(1,439,826)	(11,440,528)	(4,538,375)
Basic loss per share	<u>\$ (0.09)</u>	<u>\$ (0.03)</u>	<u>\$ (0.22)</u>	<u>\$ (0.10)</u>

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.

# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

(Expressed in Canadian dollars)

### 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.

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
<b>Short-term employee benefits</b>				
Employee salaries and bonuses	\$ 320,586	\$ 180,063	\$ 827,577	\$ 556,938
Directors fees	33,624	15,428	98,811	46,964
Social security and medical care costs	4,087	2,695	24,762	18,046
	<u>358,297</u>	<u>198,186</u>	<u>951,150</u>	<u>621,948</u>
<b>Post-employment benefits</b>				
Contributions to defined contribution pension plan	6,933	6,752	26,791	20,885
	<u>1,453,079</u>	<u>59,172</u>	<u>4,602,671</u>	<u>911,632</u>
<b>Share-based payments</b>				
	<u>\$ 1,818,309</u>	<u>\$ 264,110</u>	<u>\$ 5,580,612</u>	<u>\$ 1,554,465</u>
<b>Total key management remuneration</b>				

### 20. AUTHORIZATION OF FINANCIAL STATEMENTS

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

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Alexei Marko, Director

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Steve Rubin, Director