



Neovasc Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**FOR THE THREE MONTHS ENDED
MARCH 31, 2015 AND 2014**

(Expressed in Canadian dollars)

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NEOVASC INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(Expressed in Canadian dollars)

	Notes	March 31, 2015	December 31, 2014 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents	6	\$ 94,385,967	\$ 6,025,013
Investments	7	7,000,000	11,999,999
Accounts receivable	8	1,833,379	1,790,971
Inventory	9	526,148	475,975
Prepaid expenses and other assets		368,703	259,261
Total current assets		104,114,197	20,551,219
Non-current assets			
Property, plant and equipment	10	3,447,503	3,078,041
Total non-current assets		3,447,503	3,078,041
Total assets		\$ 107,561,700	\$ 23,629,260
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	11	\$ 2,976,974	\$ 2,513,072
Current portion of long-term debt	12	44,901	44,591
Total current liabilities		3,021,875	2,557,663
Non-current liabilities			
Long-term debt	12	146,646	157,628
Total non-current liabilities		146,646	157,628
Total liabilities		3,168,521	2,715,291
Equity			
Share capital	13	188,563,836	99,169,635
Contributed surplus	13	19,142,287	18,899,435
Deficit		(103,312,944)	(97,155,101)
Total equity		104,393,179	20,913,969
Total liabilities and equity		\$ 107,561,700	\$ 23,629,260

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Condensed Interim Consolidated Statements of Comprehensive Loss (Unaudited)

For the three months ended March 31,
(Expressed in Canadian dollars)

	Notes	2015	2014
REVENUE			
Reducer		\$ 50,140	\$ -
Product sales		277,288	694,998
Contract manufacturing		699,469	185,716
Consulting services		1,833,749	2,955,421
	14	<u>2,860,646</u>	<u>3,836,135</u>
COST OF GOODS SOLD	16	<u>1,995,249</u>	<u>1,914,522</u>
GROSS PROFIT		<u>865,397</u>	<u>1,921,613</u>
EXPENSES			
Selling expenses	16	153,683	19,915
General and administrative expenses	16	2,887,410	1,096,454
Product development and clinical trials expenses	16	4,258,897	1,233,202
		<u>7,299,990</u>	<u>2,349,571</u>
OPERATING LOSS		<u>(6,434,593)</u>	<u>(427,958)</u>
OTHER INCOME/(EXPENSE)			
Interest income		123,414	4,872
Interest expense		(1,613)	(2,017)
Gain on foreign exchange		154,949	45,031
		<u>276,750</u>	<u>47,886</u>
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		<u>\$ (6,157,843)</u>	<u>\$ (380,072)</u>
LOSS PER SHARE			
Basic and diluted loss per share	18	<u>\$ (0.10)</u>	<u>\$ (0.01)</u>

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, 2014		\$ 73,411,391	\$ 10,305,204	\$ (78,094,003)	\$ 5,622,592
Issue of share capital pursuant to a bought deal prospectus offering	13(b)(i)	25,152,000	-	-	25,152,000
Share issue costs	13(b)(i)	(506,651)	-	-	(506,651)
Issue of share capital on exercise of options		300,076	(276,516)	-	23,560
Share-based payments		-	164,961	-	164,961
Transaction with owners during the period		24,945,425	(111,555)	-	24,833,870
Loss and comprehensive loss for the period		-	-	(380,072)	(380,072)
Balance at March 31, 2014		\$ 98,356,816	\$ 10,193,649	\$ (78,474,075)	\$ 30,076,390
Balance at January 1, 2015		\$ 99,169,635	\$ 18,899,435	\$ (97,155,101)	\$ 20,913,969
Issue of share capital pursuant to an underwritten public offering	13(b)(iii)	93,320,254	-	-	93,320,254
Share issue costs	13(b)(iii)	(6,236,783)	-	-	(6,236,783)
Issue of share capital on exercise of options	13(b)	2,310,730	(1,240,100)	-	1,070,630
Share-based payments	13(b)	-	1,482,952	-	1,482,952
Transaction with owners during the period		89,394,201	242,852	-	89,637,053
Loss and comprehensive loss for the period		-	-	(6,157,843)	(6,157,843)
Balance at March 31, 2015		\$ 188,563,836	\$ 19,142,287	\$ (103,312,944)	\$ 104,393,179

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

For the three months ended March 31,
(Expressed in Canadian dollars)

	Notes	2015	2014
OPERATING ACTIVITIES			
Loss for the year		\$ (6,157,843)	\$ (380,072)
Adjustments for:			
Depreciation	16	120,676	78,660
Share-based payments	16	1,482,952	164,961
Interest income		(123,414)	(4,872)
Interest expense		1,613	2,017
		<u>(4,676,016)</u>	<u>(139,306)</u>
Net change in non-cash working capital items:			
Accounts receivable		29,933	(441,523)
Inventory		(50,173)	(529,281)
Prepaid expenses and other assets		(109,442)	(13,694)
Accounts payable and accrued liabilities		463,902	109,523
Customer deposits		-	240,986
		<u>334,220</u>	<u>(633,989)</u>
Interest paid and received:			
Interest received		51,073	2,148
Interest paid		(1,613)	(2,017)
		<u>49,460</u>	<u>131</u>
		<u>(4,292,336)</u>	<u>(773,164)</u>
INVESTING ACTIVITIES			
Decrease (increase) in investments in guaranteed investment certificates		4,999,999	(9,999,999)
Purchase of property, plant and equipment	10	(490,138)	(65,862)
		<u>4,509,861</u>	<u>(10,065,861)</u>
FINANCING ACTIVITIES			
Repayment of long-term debt	12	(10,672)	(10,267)
Proceeds from share issue pursuant to an underwritten public offering, net of share issue costs of \$6,236,783	13	87,083,471	24,645,349
Proceeds from exercise of options	13	1,070,630	23,560
		<u>88,143,429</u>	<u>24,658,642</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS		88,360,954	13,819,617
CASH AND CASH EQUIVALENTS			
Beginning of the period		6,025,013	3,403,472
End of the period		<u>\$ 94,385,967</u>	<u>\$ 17,223,089</u>
Represented by:			
Cash	6	1,490,045	2,722,473
Cashable high interest savings accounts	6	60,065,251	4,500,616
Cashable guaranteed investment certificates	6	32,830,671	10,000,000
		<u>\$ 94,385,967</u>	<u>\$ 17,223,089</u>

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

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 March 31, 2015 and December 31, 2014 and for the three months ended March 31, 2015 and 2014 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, 2014. 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, 2014 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, 2014.

The results for the three months ended March 31, 2015 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 Income in a single statement.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

3. CHANGES IN ACCOUNTING POLICIES

During the three months ended March 31, 2015, 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:

	March 31, 2015	December 31, 2014
Equity	\$ 104,393,179	\$ 20,913,969
Long-term debt	191,547	202,219
	\$ 104,584,726	\$ 21,116,188

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 March 31, 2015 and December 31, 2014, the Company was in compliance with all financial covenants associated with its long-term debt.

For the three months ended March 31, 2015 and year ended December 31, 2014 there were no changes in the Company's capital management policy.

5. FINANCIAL RISK MANAGEMENT

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

	Note	March 31, 2015	December 31, 2014
Loans and receivables			
Cash and cash equivalents	6	\$ 94,385,967	\$ 6,025,013
Investments	7	7,000,000	11,999,999
Accounts receivable	8	1,833,379	1,790,971
		\$ 103,219,346	\$ 19,815,983
Other financial liabilities			
Accounts payable and accrued liabilities	11	\$ 2,976,974	\$ 2,513,072
Long-term debt	12	191,547	202,219
		\$ 3,168,521	\$ 2,715,291

The estimated fair value of the long-term debt is \$178,162 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, investments, accounts receivable, and accounts payable and accrued liabilities is considered a reasonable approximation of fair value due to their short term nature.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

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 53% and 47% of the revenue for three months ended March 31, 2015 (three months ended March 31, 2014: 37% and 63% 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 \$75,000 and \$67,500 respectively for the three months ended March 31, 2015 (three months ended March 31, 2014: \$71,600 and \$120,200 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 \$33,000 and \$41,000 respectively as at March 31, 2015 (December 31, 2014: \$15,000 and \$40,000), and a similar change for foreign currency denominated accounts payable will impact net income by approximately \$47,000 and \$8,000 respectively as at March 31, 2015 (December 31, 2014: \$48,000 and \$13,000). 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 0.500% 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 for the three months ended March 31, 2015 by approximately \$480 (three months ended March 31, 2014: \$580) and inversely change the amount of principal repaid by the same amount.

The Company receives interest on its investment in high interest savings accounts ("HISAs") at variable interest rate. A 1% change in the interest rate on the investment in HISAs will impact net income as at March 31, 2015 by approximately \$150,000 (December 31, 2014: \$50,000).

The Company is not exposed to cash flow interest rate risk on fixed rate cash balances, fixed rate guaranteed investment certificates ("GICs") and short term accounts receivable without interest.

(c) Liquidity risk

As at March 31, 2015, the Company had \$94,385,967 cash. The cash used in operations during the three months ended March 31, 2015 was \$4,443,303.

As at March 31, 2015, the Company had working capital of \$101,092,322 as compared to working capital of \$17,993,556 as at December 31, 2014.

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 at least 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 months ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

5. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

As at March 31, 2015 and December 31, 2014, 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
March 31, 2015				
Accounts payable and accrued liabilities	\$ 2,976,974	\$ -	\$ -	\$ -
Long-term debt	24,570	24,570	151,515	-
	<u>\$ 3,001,544</u>	<u>\$ 24,570</u>	<u>\$ 151,515</u>	<u>\$ -</u>
December 31, 2014				
Accounts payable and accrued liabilities	\$ 2,513,072	\$ -	\$ -	\$ -
Long-term debt	24,570	24,570	163,800	-
	<u>\$ 2,537,642</u>	<u>\$ 24,570</u>	<u>\$ 163,800</u>	<u>\$ -</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 as at March 31, 2015: \$1,472,579 (December 31, 2014: \$1,434,455).

As at March 31, 2015, the Company had \$19,072 (as at December 31, 2014: \$2,386) of trade accounts receivable that was overdue, according to the customers' credit terms. During the three months ended March 31, 2015 and 2014 the Company did not write down any accounts receivable owed by customers.

The Company may also have credit risk related to its cash and cash equivalents, and investments with a maximum exposure of \$101,385,967 as at March 31, 2015 (December 31, 2014: \$18,025,012). The Company minimizes its risk to cash and cash equivalents by dealing with Canadian chartered banks.

6. CASH AND CASH EQUIVALENTS

	March 31, 2015	December 31, 2014
Cash held in:		
Canadian dollars	\$ 356,256	\$ 461,425
United States dollars	996,682	327,858
European euros	137,107	120,765
Cashable high interest savings accounts	60,065,251	5,114,965
Cashable guaranteed investment certificates	32,830,671	-
	<u>\$ 94,385,967</u>	<u>\$ 6,025,013</u>

The HISAs are held in major Canadian Chartered Banks. The HISAs are fully cashable at any time and have a variable interest rate. The GICs, issued by major Canadian Chartered Banks, are non-cashable, mature on May 11, 2015 and have a fixed interest rate of 1.05% per annum.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

7. INVESTMENTS

	March 31, 2015	December 31, 2014
Guaranteed investment certificates	\$ 7,000,000	\$ 11,999,999

The GICs, issued by major Canadian Chartered Banks, are non-cashable and have 1 year term. Of these GICs, \$5,000,000 will mature on June 25, 2015, with 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

	March 31, 2015	December 31, 2014
Trade receivables	\$ 1,472,579	\$ 1,434,455
Other receivables	360,800	356,516
	\$ 1,833,379	\$ 1,790,971

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:

	March 31, 2015	December 31, 2014
Not past due	\$ 1,453,507	\$ 1,432,069
Past due 0 - 30 days	-	2,386
Past due 60 - 90 days	19,072	-
	\$ 1,472,579	\$ 1,434,455

All of the Company's trade and other receivables have been reviewed for impairment. During the year ended December 31, 2014 the Company wrote down \$218,501 accounts receivable owed by a customer.

There was no allowance for doubtful accounts as at March 31, 2015 or December 31, 2014 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

	March 31, 2015	December 31, 2014
Raw materials	\$ 260,805	\$ 264,748
Work in progress	122,158	128,804
Finished goods	143,185	82,423
	\$ 526,148	\$ 475,975

During the three months ended March 31, 2015 \$928,972 (three months ended March 31, 2014: \$843,227) of inventory was expensed in cost of goods sold, and \$543,988 (three months ended March 31, 2014: \$278,110) of inventory was used in internal development projects and expensed in product development and clinical trial expenses.

During the three months ended March 31, 2015 and 2014 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 months ended March 31, 2015 and 2014

(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, 2014	\$ 207,347	\$ 1,627,005	\$ 76,958	\$ 1,126,656	\$ 318,390	\$ 308,677	\$ 220,413	\$ 3,885,446
Additions during the year	-	393,206	41,100	403,486	212,600	36,512	162,070	1,248,974
Disposals during the year	-	-	(76,958)	-	-	-	(29,553)	(106,511)
Balance at December 31, 2014	\$ 207,347	\$ 2,020,211	\$ 41,100	\$ 1,530,142	\$ 530,990	\$ 345,189	\$ 352,930	\$ 5,027,909
Additions during the period	-	297,818	-	97,230	65,674	-	29,416	490,138
Balance at March 31, 2015	\$ 207,347	\$ 2,318,029	\$ 41,100	\$ 1,627,372	\$ 596,664	\$ 345,189	\$ 382,346	\$ 5,518,047
ACCUMULATED DEPRECIATION								
Balance at January 1, 2014	\$ -	\$ 346,888	\$ 31,107	\$ 624,574	\$ 195,614	\$ 298,648	\$ 151,715	\$ 1,648,546
Depreciation for the year	-	51,366	35,891	180,838	62,105	25,513	20,098	375,811
Disposals during the year	-	-	(65,887)	-	-	-	(8,602)	(74,489)
Balance at December 31, 2014	\$ -	\$ 398,254	\$ 1,111	\$ 805,412	\$ 257,719	\$ 324,161	\$ 163,211	\$ 1,949,868
Depreciation for the period	-	12,563	3,425	56,410	31,893	5,257	11,128	120,676
Balance at March 31, 2015	\$ -	\$ 410,817	\$ 4,536	\$ 861,822	\$ 289,612	\$ 329,418	\$ 174,339	\$ 2,070,544
CARRYING AMOUNTS								
At December 31, 2014	\$ 207,347	\$ 1,621,957	\$ 39,989	\$ 724,730	\$ 273,271	\$ 21,028	\$ 189,719	\$ 3,078,041
At March 31, 2015	\$ 207,347	\$ 1,907,212	\$ 36,564	\$ 765,550	\$ 307,052	\$ 15,771	\$ 208,007	\$ 3,447,503

All property, plant and equipment is 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 months ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2015	December 31, 2014
Trade payables	\$ 2,506,420	\$ 2,139,005
Accrued vacation	218,593	278,540
Accrued liabilities	218,239	65,000
Other payables	33,722	30,527
	<u>\$ 2,976,974</u>	<u>\$ 2,513,072</u>

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

12. LONG-TERM DEBT

	March 31, 2015	December 31, 2014
Bank installment loan	\$ 191,547	\$ 202,219
Less current portion	(44,901)	(44,591)
	<u>\$ 146,646</u>	<u>\$ 157,628</u>

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:

	March 31, 2015	December 31, 2014
Year 1	\$ 44,901	\$ 44,591
Year 2	46,138	45,874
Year 3	47,258	46,987
Year 4	48,405	48,127
Year 5	4,845	16,640
	<u>\$ 191,547</u>	<u>\$ 202,219</u>

More information about the Company's exposure to interest rate 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 months ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

13. SHARE CAPITAL

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

All preferred shares have no voting rights at the shareholders 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
Balance, January 1, 2014	48,215,080	\$ 73,411,391	\$ 10,305,204
Issued for cash pursuant to bought deal prospectus offering (i)	4,192,000	25,152,000	-
Share issue costs (i)	-	(506,651)	-
Issued for cash on exercise of options	601,459	935,595	(743,670)
Issued on net exercise of options (ii)	833,805	177,300	(177,300)
Share-based payments	-	-	9,515,201
Balance, December 31, 2014	53,842,344	\$ 99,169,635	\$ 18,899,435
Issued for cash pursuant to an underwritten public offering (iii)	10,415,000	93,320,254	-
Share issue costs (iii)	-	(6,236,783)	-
Issued for cash on exercise of options	2,263,471	2,310,730	(1,240,100)
Share-based payments	-	-	1,482,952
Balance, March 31, 2015	66,520,815	\$ 188,563,836	\$ 19,142,287

- (i) 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.
- (ii) 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.
- (iii) On February 3, 2015, the Company closed an underwritten public offering of 12,075,000 common shares of the Company (of which 10,415,000 common shares were issued from treasury) at a price per share of US\$7.19 for aggregate gross proceeds of approximately US\$74,883,850 for the Company and US\$11,935,400 for the selling security holders (including some directors, officers and employees). The share issue costs incurred by the Company were \$6,236,783.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2015 and 2014

(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)
Options outstanding, January 1, 2014	8,784,920	\$ 1.04	2.20
Granted	2,150,000	6.52	
Exercised for cash	(601,459)	0.32	
Exercised under net exercise provision 13(b)(ii)	(962,500)	0.95	
Forfeited	(24,572)	3.47	
Options outstanding, December 31, 2014	9,346,389	\$ 2.37	2.19
Granted	275,000	11.84	
Exercised	(2,263,471)	0.47	
Forfeited	(2,780)	4.24	
Options outstanding, March 31, 2015	7,355,138	\$ 3.30	2.56
Options exercisable, March 31, 2015	6,265,214	\$ 2.86	2.34

The following table lists the options outstanding as at December 31, 2014 by exercise price:

Exercise price	Options outstanding	Weighted average remaining term (yrs)	Options exercisable	Weighted average remaining term (yrs)
\$ 0.01	236,308	2.60	236,308	2.60
\$ 0.20-0.40	1,789,875	0.18	1,789,875	0.18
\$ 0.97-1.45	4,123,900	1.64	3,996,250	1.40
\$ 2.00-4.25	1,051,006	3.27	720,402	3.22
\$ 6.50-7.00	2,145,300	4.35	1,589,060	4.31
	9,346,389		8,331,895	

The following table lists the options outstanding as at March 31, 2015 by exercise price:

Exercise price	Options outstanding	Weighted average remaining term (yrs)	Options exercisable	Weighted average remaining term (yrs)
\$ 0.01	100,232	2.50	100,232	2.50
\$ 0.97-1.60	3,819,000	1.41	3,703,910	1.23
\$ 2.00-4.25	1,016,806	3.03	757,252	2.97
\$ 5.80-7.00	2,144,100	4.10	1,588,820	4.06
\$ 11.00 -13.00	275,000	4.92	115,000	4.91
	7,355,138		6,265,214	

NEOVASC INC.

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For the three months ended March 31, 2015 and 2014

(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 three months ended March 31, 2015 was \$9.23 (three months ended March 31, 2014: \$4.48). During the three months ended March 31, 2015, the Company recorded \$1,482,952 as compensation expense for share-based compensation awarded to eligible optionees (three months ended March 31, 2014: \$164,961). 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:

	2015		2014
Weighted average fair value	\$ 8.75	\$	5.18
Dividend yield	nil		nil
Volatility	98%		110%
Risk-free interest rate	1.50%		1.75%
Expected life	5 years		5 years
Forfeiture rate	1%		5%

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 March 31,	
	2015	2014
REVENUE		
United States	\$ 1,289,532	\$ 921,683
Europe	1,505,711	2,817,596
Israel	65,403	96,856
	\$ 2,860,646	\$ 3,836,135

Sales to the Company's four largest customers accounted for approximately 29%, 19%, 19% and 15% of the Company's sales for the three months ended March 31, 2015. Sales to the Company's four largest customers accounted for approximately 36%, 20%, 17% and 13% of the Company's sales for the three months ended March 31, 2014.

15. EMPLOYEE BENEFITS EXPENSE

	For the three months ended March 31,	
	2015	2014
Salaries and wages	\$ 2,326,428	\$ 1,546,376
Pension plan and employment insurance	184,683	97,786
Contribution to defined contribution pension plan	46,136	27,657
Health benefits	185,745	104,228
Cash-based employee expenses	2,742,992	1,776,047
Share-based payments	1,482,952	164,961
	\$ 4,225,944	\$ 1,941,008

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2015 and 2014

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16. DEPRECIATION, SHARE-BASED PAYMENTS, EMPLOYEE AND OTHER EXPENSES

	For the three months ended March 31,	
	2015	2014
COST OF GOODS SOLD		
Depreciation	\$ 42,235	\$ 26,859
Share-based payments	54,327	32,702
Cash-based employee expenses	1,096,176	857,667
Other expenses	802,511	997,294
TOTAL COST OF GOODS SOLD	\$ 1,995,249	\$ 1,914,522
EXPENSES		
Selling expenses		
Depreciation	\$ -	\$ 96
Share-based payments	12,766	1,230
Cash-based employee expenses	-	18,589
Other expenses	140,917	-
	153,683	19,915
General and administrative expenses		
Depreciation	16,526	21,828
Share-based payments	807,660	54,219
Cash-based employee expenses	515,495	458,670
Other expenses	1,547,729	561,737
	2,887,410	1,096,454
Product development and clinical trials expenses		
Depreciation	61,915	29,877
Share-based payments	608,199	76,810
Cash-based employee expenses	1,131,321	441,121
Other expenses	2,457,462	685,394
	4,258,897	1,233,202
TOTAL EXPENSES	\$ 7,299,990	\$ 2,349,571
Depreciation per Statements of Cash Flows	\$ 120,676	\$ 78,660
Share-based payments per Statements of Cash Flows	\$ 1,482,952	\$ 164,961
Cash-based employee expenses (see Note 15)	\$ 2,742,992	\$ 1,776,047

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

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(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. 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 five years are as follows:

	As at March 31,	
	2015	2014
Year 1	\$ 189,271	\$ 21,130
Year 2	211,970	3,600
Year 3	173,423	-
Year 4	54,732	-
Year 5	51,619	-
	<u>\$ 681,015</u>	<u>\$ 24,730</u>

Lease payments recognized as an expense during the three months ended March 31, 2015 amount to \$69,811 (three months ended March 31, 2014: \$11,270).

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 months ended March 31, 2015 amounted to 61,814,912 shares (three months ended March 31, 2014: 48,559,469 shares).

	For the three months ended March 31,	
	2015	2014
Weighted average number of common shares	61,814,912	48,559,469
Loss for the period	(6,157,843)	(380,072)
Basic loss per share	<u>\$ (0.10)</u>	<u>\$ (0.01)</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

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(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 March 31,	
	2015	2014
Short-term employee benefits		
Employee salaries and bonuses	\$ 421,601	\$ 228,710
Directors fees	85,610	33,159
Social security and medical care costs	17,796	12,762
	<u>525,007</u>	<u>274,631</u>
Post-employment benefits		
Contributions to defined contribution pension plan	<u>12,437</u>	<u>7,536</u>
Share-based payments	<u>940,149</u>	<u>1,111</u>
Total key management remuneration	<u>\$ 1,477,593</u>	<u>\$ 283,278</u>

20. AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the three months ended March 31, 2015 (including comparatives) were approved by the audit committee on behalf of the board of directors on May 11, 2015.

(signed) *Alexei Marko*

Alexei Marko, Director

(signed) *Steve Rubin*

Steve Rubin, Director