



Neovasc Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 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	June 30, 2015	December 31, 2014 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents	6	\$ 85,654,914	\$ 6,025,013
Investments	7	8,097,717	11,999,999
Accounts receivable	8	1,712,552	1,790,971
Inventory	9	501,979	475,975
Prepaid expenses and other assets		486,862	259,261
Total current assets		96,454,024	20,551,219
Non-current assets			
Property, plant and equipment	10	4,388,394	3,078,041
Total non-current assets		4,388,394	3,078,041
Total assets		\$ 100,842,418	\$ 23,629,260
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	11	\$ 3,347,208	\$ 2,513,072
Current portion of long-term debt	12	-	44,591
Total current liabilities		3,347,208	2,557,663
Non-current liabilities			
Long-term debt	12	-	157,628
Total non-current liabilities		-	157,628
Total liabilities		3,347,208	2,715,291
Equity			
Share capital	13	188,635,715	99,169,635
Contributed surplus	13	20,475,855	18,899,435
Deficit		(111,616,360)	(97,155,101)
Total equity		97,495,210	20,913,969
Total liabilities and equity		\$ 100,842,418	\$ 23,629,260

SUBSEQUENT EVENTS (see Note 20)

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)

		Three months ended June 30,		Six months ended June 30,	
	Notes	2015	2014	2015	2014
REVENUE					
Reducer		\$ 165,528	\$ -	\$ 215,668	\$ -
Product sales		147,685	798,921	424,973	1,493,919
Contract manufacturing		1,195,544	721,225	1,895,013	906,941
Consulting services		2,091,077	2,884,369	3,924,826	5,839,790
	14	<u>3,599,834</u>	<u>4,404,515</u>	<u>6,460,480</u>	<u>8,240,650</u>
COST OF GOODS SOLD					
	16	<u>2,232,359</u>	<u>3,066,924</u>	<u>4,227,608</u>	<u>4,981,446</u>
GROSS PROFIT					
		<u>1,367,475</u>	<u>1,337,591</u>	<u>2,232,872</u>	<u>3,259,204</u>
EXPENSES					
Selling expenses	16	154,302	24,413	307,985	44,328
General and administrative expenses	16	4,347,076	4,644,387	7,234,486	5,740,841
Product development and clinical trials expenses	16	5,263,521	3,113,707	9,522,418	4,346,909
		<u>9,764,899</u>	<u>7,782,507</u>	<u>17,064,889</u>	<u>10,132,078</u>
OPERATING LOSS					
		<u>(8,397,424)</u>	<u>(6,444,916)</u>	<u>(14,832,017)</u>	<u>(6,872,874)</u>
OTHER INCOME/(EXPENSE)					
Interest income		309,251	71,066	432,665	75,938
Interest expense		(1,522)	(1,995)	(3,135)	(4,012)
Loss on investment		(39,949)	-	(39,949)	-
Loss on foreign exchange		(173,772)	(96,066)	(18,823)	(51,035)
		<u>94,008</u>	<u>(26,995)</u>	<u>370,758</u>	<u>20,891</u>
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD					
		<u>\$ (8,303,416)</u>	<u>\$ (6,471,911)</u>	<u>\$ (14,461,259)</u>	<u>\$ (6,851,983)</u>
LOSS PER SHARE					
Basic and diluted loss per share	18	<u>\$ (0.12)</u>	<u>\$ (0.12)</u>	<u>\$ (0.23)</u>	<u>\$ (0.13)</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		788,442	(649,664)	-	138,778
Share-based payments		-	4,230,641	-	4,230,641
Transaction with owners during the period		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
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)	2,382,609	(1,290,669)	-	1,091,940
Share-based payments	13(b)	-	2,867,089	-	2,867,089
Transaction with owners during the period		89,466,080	1,576,420	-	91,042,500
Loss and comprehensive loss for the period		-	-	(14,461,259)	(14,461,259)
Balance at June 30, 2015		\$ 188,635,715	\$ 20,475,855	\$ (111,616,360)	\$ 97,495,210

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,		Six months ended June 30,	
	2015	2014	2015	2014
OPERATING ACTIVITIES				
Loss for the year	\$ (8,303,416)	\$ (6,471,911)	\$ (14,461,259)	\$ (6,851,983)
Adjustments for:				
Depreciation	16 131,699	85,973	252,375	164,633
Share-based payments	16 1,384,137	4,065,680	2,867,089	4,230,641
Loss on investments	39,949	-	39,949	-
Interest income	(309,251)	(71,066)	(432,665)	(75,938)
Interest expense	1,522	1,995	3,135	4,012
	(7,055,360)	(2,389,329)	(11,731,376)	(2,528,635)
Net change in non-cash working capital items:				
Accounts receivable	207,811	425,909	237,744	(15,614)
Inventory	24,169	179,052	(26,004)	(350,229)
Prepaid expenses and other assets	(118,159)	(101,719)	(227,601)	(115,413)
Accounts payable and accrued liabilities	370,234	585,690	834,136	695,213
Customer deposits	-	(124,686)	-	116,300
	484,055	964,246	818,275	330,257
Interest paid and received:				
Interest received	222,267	38,037	273,340	40,185
Interest paid	(1,522)	(1,995)	(3,315)	(4,012)
	220,745	36,042	270,205	36,173
	(6,350,560)	(1,389,041)	(10,642,896)	(2,162,205)
INVESTING ACTIVITIES				
(Increase)/decrease in investments	(1,097,717)	-	3,902,282	(9,999,999)
Loss on investments	(39,949)	-	(39,949)	-
Purchase of property, plant and equipment	10 (1,072,590)	(251,141)	(1,562,728)	(317,003)
	(2,210,256)	(251,141)	2,299,605	(10,317,002)
FINANCING ACTIVITIES				
Repayment of long-term debt	12 (191,547)	(10,291)	(202,219)	(20,558)
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 21,310	115,218	1,091,940	138,778
	(170,237)	104,927	87,973,192	24,763,569
NET CHANGE IN CASH AND CASH EQUIVALENTS	(8,731,053)	(1,535,255)	79,629,901	12,284,362
CASH AND CASH EQUIVALENTS				
Beginning of the period	94,385,967	17,223,089	6,025,013	3,403,472
End of the period	\$ 85,654,914	\$ 15,687,834	\$ 85,654,914	\$ 15,687,834
Represented by:				
Cash	\$ 2,693,131	\$ 1,149,180	\$ 2,693,131	\$ 1,149,180
Cashable high interest savings accounts	22,540,486	9,538,654	22,540,486	9,538,654
Cashable guaranteed investment certificates	60,421,297	5,000,000	60,421,297	5,000,000
	\$ 85,654,914	\$ 15,687,834	\$ 85,654,914	\$ 15,687,834

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2015 and 2014

(Expressed in Canadian dollars)

1. INCORPORATION AND NATURE OF BUSINESS

Neovasc Inc. (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, 2015 and December 31, 2014 and for the three and six months ended June 30, 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 Tiarai™ 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 and six months ended June 30, 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.

Angiometrx Inc. was amalgamated into Neovasc Medical Inc, on January 1, 2015 and B-Balloon Ltd. is in the process of being voluntarily wound up under the laws of Israel.

(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 and six months ended June 30, 2015 and 2014

(Expressed in Canadian dollars)

3. CHANGES IN ACCOUNTING POLICIES

During the three and six months ended June 30, 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:

	June 30, 2015	December 31, 2014
Equity	\$ 97,495,210	\$ 20,913,969
Long-term debt	-	202,219
	\$ 97,495,210	\$ 21,116,188

For the three and six months ended June 30, 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	June 30, 2015	December 31, 2014
Loans and receivables			
Cash and cash equivalents	6	\$ 85,654,914	\$ 6,025,013
Investments	7	8,097,717	11,999,999
Accounts receivable	8	1,712,552	1,790,971
		\$ 95,465,183	\$ 19,815,983
Other financial liabilities			
Accounts payable and accrued liabilities	11	\$ 3,347,208	\$ 2,513,072
Long-term debt	12	-	202,219
		\$ 3,347,208	\$ 2,715,291

The Company invested US\$4,920,367 in Goldman Sachs Group Inc. premium bond at a coupon rate of 3.7%, will mature on August 1, 2015. The bond is classified as held-to-maturity and is measured at amortized cost using the effective interest method. The amortized cost of the bond as at June 30, 2015 is \$6,097,717 (December 31, 2014: \$nil), which approximates the fair value of the bond. Fair value of the bond is referred to the price in active markets at the reporting date, and is considered a level 2 fair value measurement. The fair value of the premium bonds also reflects the US dollar spot rate as at the reporting date. As at June 30, 2015, the balance of the investments are fixed rate guaranteed investment certificates (GICs), classified as loans and receivables, measured at amortized cost using the effective interest method (December 31, 2014: \$11,999,999).

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 and six months ended June 30, 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 55% and 45% of the revenue for six months ended June 30, 2015 (six months ended June 30, 2014: 38% and 56% 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 \$178,000 and \$144,500 respectively for the six months ended June 30, 2015 (six months ended June 30, 2014: \$155,000 and \$232,000 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 \$30,000 and \$27,000 respectively as at June 30, 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 \$21,000 and \$8,000 respectively as at June 30, 2015 (December 31, 2014: \$48,000 and \$13,000). The Company does not hedge its foreign exchange risk.

(b) Interest rate risk

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 June 30, 2015 by approximately \$113,000 (December 31, 2014: \$50,000).

The Company is not exposed to cash flow interest rate risk on fixed rate cash balances, fixed rate GICs, fixed rate premium bonds and short term accounts receivable without interest.

(c) Liquidity risk

As at June 30, 2015, the Company had \$85,654,914 cash. The cash used in operations during the six months ended June 30, 2015 was \$10,642,896.

As at June 30, 2015, the Company had working capital of \$93,106,816 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.

As at June 30, 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
June 30, 2015				
Accounts payable and accrued liabilities	\$ 3,347,208	\$ -	\$ -	\$ -
Long-term debt	-	-	-	-
	<u>\$ 3,347,208</u>	<u>\$ -</u>	<u>\$ -</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>

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2015 and 2014

(Expressed in Canadian dollars)

5. FINANCIAL RISK MANAGEMENT (continued)

(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 debtors' 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 June 30, 2015: \$1,141,079 (December 31, 2014: \$1,434,455).

As at June 30, 2015, the Company had \$19,119 (as at December 31, 2014: \$2,386) of trade accounts receivable that was overdue, according to the customers' credit terms. During the three and six months ended June 30, 2015 the Company wrote down \$nil (three and six months ended June 30, 2014: \$218,501) 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 \$87,654,914 as at June 30, 2015 (December 31, 2014: \$18,025,012). The Company minimizes its risk to cash and cash equivalents by dealing with Canadian chartered banks.

The Company is exposed to credit risk for its investment in bond. The carrying amount is \$6,097,717 as at June 30, 2015. The premium bond has been graded A-2 by Standard & Poor's and is not past due. The carrying amount disclosed above is the Company's maximum possible credit risk exposure to this investment.

(e) Market price risk

The Company is exposed to market price risk in respect of its investment in bond. The Company invested US\$4,920,367 for 4,878,000 units at market price of US\$1.00869 per unit. As at June 30, 2015, the market price is US\$1.00212 per unit, which results to a loss of \$39,949. As the bond is closing to its maturity date, the market price will gradually decrease to US\$1.00 per unit. The maximum exposure to market price risk is \$52,849.

6. CASH AND CASH EQUIVALENTS

	June 30, 2015	December 31, 2014
Cash held in:		
Canadian dollars	\$ 944,307	\$ 461,425
United States dollars	962,186	327,858
European euros	786,638	120,765
Cashable high interest savings accounts	22,540,486	5,114,965
Cashable guaranteed investment certificates	60,421,297	-
	<u>\$ 85,654,914</u>	<u>\$ 6,025,013</u>

The HISAs are held in major Canadian Chartered Banks and are denominated in Canadian dollars. 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. Of these GICs, \$5,000,000, have a one-month term, will mature on July 30, 2015, and have a fixed interest rate of 1.36% per annum, and \$55,421,297, have a one-month term, will mature on July 13, 2015, and have a fixed interest rate of 1.36% per annum.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2015 and 2014

(Expressed in Canadian dollars)

7. INVESTMENTS

	June 30, 2015	December 31, 2014
Guaranteed investment certificates	\$ 2,000,000	\$ 11,999,999
Premium bond	6,097,717	-
	\$ 8,097,717	\$ 11,999,999

The GICs, issued by major Canadian Chartered Banks, are non-cashable and have 1 year term, will mature on September 23, 2015, and have a fixed interest rate of 1.61% per annum.

The premium bond, is non-cashable and has 100 days term, will mature on August 1, 2015, and has a coupon rate of 3.7% per annum.

8. ACCOUNTS RECEIVABLE

	June 30, 2015	December 31, 2014
Trade receivables	\$ 1,141,079	\$ 1,434,455
Other receivables	571,473	356,516
	\$ 1,712,552	\$ 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:

	June 30, 2015	December 31, 2014
Not past due	\$ 1,121,960	\$ 1,432,069
Past due 0 - 30 days	-	2,386
Past due 60 - 90 days	19,119	-
	\$ 1,141,079	\$ 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 single customer. There were no write-downs to accounts receivable for the period ended June 30, 2015.

There was no allowance for doubtful accounts as at June 30, 2015 or December 31, 2014 and there was no movement in the allowance for doubtful accounts in either period.

9. INVENTORY

	June 30, 2015	December 31, 2014
Raw materials	\$ 231,438	\$ 264,748
Work in progress	135,147	128,804
Finished goods	135,394	82,423
	\$ 501,979	\$ 475,975

During the three and six months ended June 30, 2015 \$1,016,240 and \$1,945,212 (three and six months ended June 30, 2014: \$1,771,953 and \$2,615,180) of inventory was expensed in cost of goods sold, and \$188,788 and \$732,776 (three and six months ended June 30, 2014: \$461,014 and \$739,124) 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, 2015 and 2014 the Company did not write down any obsolete inventory.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 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	311,360	580,943	-	575,335	65,674	-	29,416	1,562,728
Balance at June 30, 2015	\$ 518,707	\$ 2,601,154	\$ 41,100	\$ 2,105,477	\$ 596,664	\$ 345,189	\$ 382,346	\$ 6,590,637
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	-	25,126	6,850	119,649	66,641	10,514	23,595	252,375
Balance at June 30, 2015	\$ -	\$ 423,380	\$ 7,961	\$ 925,061	\$ 324,360	\$ 334,675	\$ 186,806	\$ 2,202,243
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 June 30, 2015	\$ 518,707	\$ 2,177,774	\$ 33,139	\$ 1,180,416	\$ 272,304	\$ 10,514	\$ 195,540	\$ 4,388,394

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2015 and 2014

(Expressed in Canadian dollars)

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2015	December 31, 2014
Trade payables	\$ 2,852,017	\$ 2,139,005
Accrued vacation	319,749	278,540
Accrued liabilities	139,153	65,000
Other payables	36,289	30,527
	<u>\$ 3,347,208</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

	June 30, 2015	December 31, 2014
Bank installment loan	\$ -	\$ 202,219
Less current portion	-	(44,591)
	<u>\$ -</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.

In June 2015, the Company paid out the long-term debt.

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

	June 30, 2015	December 31, 2014
Year 1	\$ -	\$ 44,591
Year 2	-	45,874
Year 3	-	46,987
Year 4	-	48,127
Year 5	-	16,640
	<u>\$ -</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.

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For the three and six months ended June 30, 2015 and 2014

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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	2,287,403	2,382,609	(1,290,669)
Share-based payments	-	-	2,867,089
Balance, June 30, 2015	66,544,747	\$ 188,635,715	\$ 20,475,855

- (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.

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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 (see note 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	682,047	10.87	
Exercised	(2,287,403)	0.48	
Forfeited	(5,500)	3.65	
Options outstanding, June 30, 2015	7,735,533	\$ 3.67	2.45
Options exercisable, June 30, 2015	6,490,961	\$ 2.99	2.15

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 June 30, 2015 by exercise price:

Exercise price	Options outstanding	Weighted average remaining term (yrs)	Options exercisable	Weighted average remaining term (yrs)
\$ 0.01	86,280	2.56	86,280	2.56
\$ 0.97-1.60	3,813,100	1.16	3,775,300	1.02
\$ 2.00-4.25	1,011,206	2.78	757,052	2.73
\$ 5.80-7.00	2,142,900	3.85	1,675,920	3.81
\$ 8.00-9.00	75,000	4.92	15,000	4.92
\$ 11.00 -13.00	607,047	4.74	181,409	4.71
	7,735,533		6,490,961	

NEOVASC INC.

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13. 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, 2015 was \$9.22 (six months ended June 30, 2014: \$6.76). During the three and six months ended June 30, 2015, the Company recorded \$1,384,137 and \$2,867,089 as compensation expense for share-based compensation awarded to eligible optionees (three and six months ended June 30, 2014: \$4,065,680 and \$4,230,641). 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	\$ 8.01	\$	5.18
Dividend yield	nil		nil
Volatility	96%		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 June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
REVENUE				
United States	\$ 1,806,497	\$ 1,128,911	\$ 3,096,029	\$ 2,050,594
Europe	1,721,927	3,145,803	3,227,638	5,963,399
Israel	71,410	129,801	136,813	226,657
	\$ 3,599,834	\$ 4,404,515	\$ 6,460,480	\$ 8,240,650

Sales to the Company's four largest customers accounted for approximately 30%, 27%, 17%, and 14% of the Company's sales for the three months ended June 30, 2015 and 28%, 25%, 18% and 14% of the Company's sales for the six months ended June 30, 2015. Comparatively, 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.

15. EMPLOYEE BENEFITS EXPENSE

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Salaries and wages	\$ 2,742,203	\$ 1,630,966	\$ 5,068,632	\$ 3,177,342
Pension plan and employment insurance	171,733	96,094	356,416	193,880
Contribution to defined contribution pension plan	38,714	34,053	84,850	61,710
Health benefits	233,760	116,984	419,504	221,212
Cash-based employee expenses	3,186,410	1,878,097	5,929,402	3,654,144
Share-based payments	1,384,137	4,065,680	2,867,089	4,230,641
	\$ 4,570,547	\$ 5,943,777	\$ 8,796,491	\$ 7,884,785

NEOVASC INC.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
COST OF GOODS SOLD				
Depreciation	\$ 46,883	\$ 30,001	\$ 89,118	\$ 56,860
Share-based payments	153,838	96,811	208,165	129,513
Cash-based employee expenses	1,200,782	970,785	2,296,958	1,828,452
Other expenses	830,856	1,969,327	1,633,367	2,966,621
TOTAL COST OF GOODS SOLD	\$ 2,232,359	\$ 3,066,924	\$ 4,227,608	\$ 4,981,446
EXPENSES				
Selling expenses				
Depreciation	\$ -	\$ 96	\$ -	\$ 192
Share-based payments	12,907	5,112	25,673	6,342
Cash-based employee expenses	-	19,205	-	37,794
Other expenses	141,395	-	282,312	-
	154,302	24,413	307,985	44,328
General and administrative expenses				
Depreciation	19,336	23,099	35,862	44,927
Share-based payments	273,597	2,802,674	1,081,257	2,856,893
Cash-based employee expenses	697,805	381,738	1,213,300	840,408
Other expenses	3,356,338	1,436,876	4,904,067	1,998,613
	4,347,076	4,644,387	7,234,486	5,740,841
Product development and clinical trials expenses				
Depreciation	65,480	32,777	127,395	62,654
Share-based payments	943,795	1,161,083	1,551,994	1,237,893
Cash-based employee expenses	1,287,823	506,369	2,419,144	947,490
Other expenses	2,966,423	1,413,478	5,423,885	2,098,872
	5,263,521	3,113,707	9,522,418	4,346,909
TOTAL EXPENSES	\$ 9,764,899	\$ 7,782,507	\$ 17,064,889	\$ 10,132,078
Depreciation per Statements of Cash Flows	\$ 131,699	\$ 85,973	\$ 252,375	\$ 164,633
Share-based payments per Statements of Cash Flows	\$ 1,384,137	\$ 4,065,680	\$ 2,867,089	\$ 4,230,641
Cash-based employee expenses (see Note 15)	\$ 3,186,410	\$ 1,878,097	\$ 5,929,402	\$ 3,654,144

NEOVASC INC.

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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. This lease is renewed on June 2014. The term of the lease is 24 months commencing on August 1, 2015.

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 original term of the lease is 66 months commencing on September 1, 2014. Additional office space was added in July 2015 in Minneapolis. The term of the combined lease is 59 months commencing on July 1, 2015.

The Company entered into an agreement for additional office space in May 2015. The agreement does not contain any contingent rent clauses, renewal or purchase options or escalation clauses. The term of the lease is 32 months commencing on May 1, 2015.

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

	As at June 30,	
	2015	2014
Year 1	\$ 261,025	\$ 15,965
Year 2	278,089	900
Year 3	183,090	-
Year 4	97,206	-
Year 5	91,725	-
	<u>\$ 911,135</u>	<u>\$ 16,865</u>

Lease payments recognized as an expense during the three and six months ended June 30, 2015 amount to \$72,150 and \$141,961 (three and six months ended June 30, 2014: \$9,458 and \$20,728).

18. LOSS PER SHARE

Both the basic and diluted loss per share have been calculated using the loss attributable to shareholders of the Company as the numerator. The weighted average number of common shares outstanding used for basic loss per share for the three and six months ended June 30, 2015 amounted to 66,531,433 and 64,186,202 shares (three and six months ended June 30, 2014: 53,005,338 and 50,796,149 shares).

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Weighted average number of common shares	66,531,433	53,005,338	64,186,202	50,796,149
Loss for the period	(8,303,416)	(6,471,911)	(14,461,259)	(6,851,983)
Basic loss per share	<u>\$ (0.12)</u>	<u>\$ (0.12)</u>	<u>\$ (0.23)</u>	<u>\$ (0.13)</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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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 June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Short-term employee benefits				
Employee salaries and bonuses	\$ 380,882	\$ 278,281	\$ 802,483	\$ 506,991
Directors fees	84,200	32,028	169,810	65,187
Social security and medical care costs	5,421	7,913	23,217	20,675
	470,503	318,222	995,510	592,853
Post-employment benefits				
Contributions to defined contribution pension plan	11,075	12,322	23,512	19,858
Share-based payments	155,176	3,148,481	1,095,325	3,149,592
Total key management remuneration	\$ 636,754	\$ 3,479,025	\$ 2,114,347	\$ 3,762,303

20. SUBSEQUENT EVENTS

On July 23, 2015, the Board approved a new \$1,000,000 line of credit with the Company's bank. The approved amount includes a \$900,000 revolving line of credit and \$100,000 corporate classic VISA. This line of credit 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 interest rate for the \$900,000 business operating account overdraft will be calculated at Prime Rate plus 1% per annum.

21. AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the three and six months ended June 30, 2015 (including comparatives) were approved by the audit committee on behalf of the board of directors on August xx, 2015.

(signed) **Alexei Marko**

Alexei Marko, Director

(signed) **Steve Rubin**

Steve Rubin, Director