Neovasc Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

(Expressed in U.S. dollars)

CONTENTS

NEOVASC INC.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in U.S. dollars) (Unaudited)

	Notes	March 31, 2017	December 31, 2016
ASSETS			
Current assets			
Cash and cash equivalents	6	**$ 16,206,632**	$ 22,954,571
Cash held in escrow	7	**70,076,034**	70,000,000
Accounts receivable	8	**2,154,575**	3,117,474
Inventory	9	**460,721**	196,723
Prepaid expenses and other assets		**877,948**	505,340
Total current assets		**89,775,910**	96,774,108
Non-current assets			
Restricted cash	10	**450,360**	449,760
Property, plant and equipment	11	**1,760,872**	1,585,635
Total non-current assets		**2,211,232**	2,035,395
Total assets		**$ 91,987,142**	$ 98,809,503
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12	**$ 2,004,783**	$ 2,490,943
Damages provision	13	**111,992,980**	111,781,096
Total current liabilities and total liabilities		**113,997,763**	114,272,039
Equity			
Share capital	14	**168,746,036**	168,712,673
Contributed surplus	14	**23,647,293**	22,301,437
Accumulated other comprehensive loss		**(4,775,357)**	(4,693,040)
Deficit		**(209,628,593)**	(201,783,606)
Total equity		**(22,010,621)**	(15,462,536)
Total liabilities and equity		**$ 91,987,142**	$ 98,809,503

Going Concern and Uncertainty (see Note 1)
Contingent Liabilities and Provisions (see Note 21)
Operating Leases (Note 18)

NEOVASC INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three months ended March 31,
(Expressed in U.S. dollars) (Unaudited)

	Notes	2017	2016
REVENUE			
Reducer		**$ 260,765**	$ 213,765
Contract manufacturing		**133,963**	606,783
Consulting services		**1,086,632**	1,186,194
	15	**1,481,360**	2,006,742
COST OF GOODS SOLD	17	**808,628**	1,445,644
GROSS PROFIT		**672,732**	561,098
EXPENSES			
Selling expenses	17	**187,168**	164,847
General and administrative expenses	17	**3,248,713**	5,827,405
Product development and clinical trials expenses	17	**5,053,523**	4,082,787
		8,489,404	10,075,039
OPERATING LOSS		**(7,816,672)**	(9,513,941)
OTHER INCOME/(EXPENSE)			
Interest income		**89,969**	89,274
Interest on damages provision		**(211,884)**	-
Foreign exchange loss		**(1,355,661)**	(1,408,297)
Unrealized gain on damages provision		**1,505,875**	-
		28,299	(1,319,023)
LOSS BEFORE TAX		**(7,788,373)**	(10,832,964)
Tax expense		**(56,614)**	(48,174)
LOSS FOR THE PERIOD		**$ (7,844,987)**	$ (10,881,138)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD			
Exchange difference on translation		**(1,588,192)**	3,289,436
Unrealized gain on damages provision		**1,505,875**	-
		82,317	3,289,436
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		**$ (7,927,304)**	$ (7,591,702)
LOSS PER SHARE			
Basic and diluted loss per share	19	**$ (0.10)**	$ (0.16)

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Condensed Interim Consolidated Statements of Changes in Equity

(Expressed in U.S. dollars) (Unaudited)

	Notes	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2016		**$ 161,505,037**	**$ 20,569,110**	**$ (8,790,011)**	**$ (115,288,713)**	**$ 57,995,423**
Issue of share capital on exercise of options		102,429	(53,934)	-	-	48,495
Share-based payments		-	561,584	-	-	561,584
Transaction with owners during the period		102,429	507,650	-	-	610,079
Loss for the period		-	-	-	**(10,881,138)**	**(10,881,138)**
Other comprehensive loss for the period		-	-	**3,289,436**	-	**3,289,436**
Balance at March 31, 2016		**$ 161,607,466**	**$ 21,076,760**	**$ (5,500,575)**	**$ (126,169,851)**	**$ 51,013,800**
Balance at January 1, 2017		**$ 168,712,673**	**$ 22,301,437**	**$ (4,693,040)**	**$ (201,783,606)**	**$ (15,462,536)**
Issue of share capital on exercise of options	14	33,363	(15,821)	-	-	17,542
Share-based payments	17	-	1,361,677	-	-	1,361,677
Transaction with owners during the period		33,363	1,345,856	-	-	1,379,219
Loss for the period		-	-	-	**(7,844,987)**	**(7,844,987)**
Other comprehensive income for the period		-	-	**(82,317)**	-	**(82,317)**
Balance at March 31, 2017		**$ 168,746,036**	**$ 23,647,293**	**$ (4,775,357)**	**$ (209,628,593)**	**$ (22,010,621)**

NEOVASC INC.

Condensed Interim Consolidated Statements of Cash Flows

For the three months ended March 31,
(Expressed in U.S. dollars) (Unaudited)

	Notes	2017	2016
OPERATING ACTIVITIES			
Loss for the period		**$ (7,844,987)**	$ (10,881,138)
Adjustments for:			
Depreciation	17	**111,283**	147,483
Share-based payments	17	**1,361,677**	561,584
Damages provision		**211,884**	-
Write-down accounts receivable		**40,000**	4,859
Income tax expense		**56,614**	-
Interest income		**(89,969)**	(89,274)
		(6,153,498)	(10,256,486)
Net change in non-cash working capital items:			
Accounts receivable		**955,503**	(43,249)
Inventory		**(264,179)**	(484,910)
Prepaid expenses and other assets		**(427,692)**	(264,894)
Accounts payable and accrued liabilities		**(508,858)**	64,489
		(245,226)	(728,564)
Interest received		**89,969**	81,338
		89,969	81,338
Net cash applied to operating activities		**(6,308,755)**	(10,903,712)
INVESTING ACTIVITES			
Increase in cash held in escrow		**(76,034)**	-
Purchase of property, plant and equipment	11	**(275,226)**	(305,585)
Net cash (applied to)/received from investing activities		**(351,260)**	(305,585)
FINANCING ACTIVITIES			
Proceeds from exercise of options	14	**17,542**	48,495
Net cash received from financing activities		**17,542**	48,495
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(6,642,473)**	(11,160,802)
CASH AND CASH EQUIVALENTS			
Beginning of the period		**22,954,571**	55,026,171
Exchange difference on cash and cash equivalents		**(105,466)**	3,037,823
End of the period		**$ 16,206,632**	$ 46,903,192
Represented by:			
Cash	6	**7,162,305**	6,822,114
Cashable high interest savings accounts	6	**9,044,327**	21,558,219
Cashable guaranteed investment certificates	6	**-**	18,522,859
		$ 16,206,632	$ 46,903,192

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

1. INCORPORATION AND GOING CONCERN

(a) Business Description

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 condensed interim consolidated financial statements of the Company as at March 31, 2017 and for the three months ended March 31, 2017 and 2016 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:NVCN) 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™ for the transcatheter treatment of mitral valve disease and the Neovasc Reducer™ for the treatment of refractory angina.

(b) Going Concern and Uncertainty

As at March 31, 2017, the Company had $16,206,632 in cash and cash equivalents and a working capital deficit of $24,221,853. On May 19, 2016, following a trial in Boston, Massachusetts, a jury awarded $70 million on certain trade secret claims made by CardiAQ Valve Technologies, Inc. ("CardiAQ"). On October 31, 2016, during post-trial motions, the judge awarded $21 million in enhanced damages on those claims. On January 18, 2017, during post-trial motions, the judge awarded approximately $21 million in pre- and post- judgment interest. The Company has been successful in staying the total $112 million damages award and has placed $70 million in a joint escrow account. If the Company is not successful on appeal of the verdict, or otherwise is unsuccessful in reducing the amount of these awards to an amount less than the $70 million held in escrow, the Company will require significant additional financing in order to pay the damages and to continue to operate its business. There can be no assurance that such financing will be available on favorable terms, or at all.

The Company intends to continue to vigorously defend itself in the litigation during the appeal process and so the outcome of these matters, including whether the Company will be required to pay some or all of the total $112 million damages award is not currently determinable. Litigation is inherently uncertain. Therefore, until these matters have been resolved to their ultimate conclusion by the appropriate courts, the Company cannot give any assurances as to the outcome. If the Company is unsuccessful in its appeal of the verdict in the CardiAQ litigation, or is unable to settle the claims in a manner satisfactory to the Company, it may be faced with significant monetary damages that could exceed its resources and/or the loss of intellectual property rights that could have a material adverse effect on the Company and its financial condition. These circumstances indicate the existence of material uncertainty and cast substantial doubt about the Company's ability to continue as a going concern (See Notes 7, 13, and 21).

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the Company be unable to reduce the amount of the award or obtain significant additional financing and the Company's ability to continue as a going concern be impaired, material adjustments may be necessary to these consolidated financial statements.

(Expressed in U.S. dollars)

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, 2016. 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, 2016 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, 2016.

The results for the three months ended March 31, 2017 may not be indicative of the results that may be expected for the full year or any other period.

(b) Basis of consolidation

The condensed interim consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries, Neovasc Medical Inc., Neovasc Tiara Inc., Neovasc (US) Inc., Neovasc Medical Ltd. and B-Balloon Ltd. (which is in the process of being voluntarily liquidated). 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements have been prepared in accordance with the accounting policies adopted in the Company's most recent annual consolidated financial statements for the year ended December 31, 2016.

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, new units or new debt (secured, unsecured, convertible and/or other types of available debt instruments). For the three months ended March 31, 2017 and 2016 there were no changes in the Company's capital management policy.

The capital of the Company is comprised of:

	March 31, 2017	December 31, 2016
Equity	**$ (22,010,621)**	$ (15,462,536)

As at March 31, 2017, the Company is in a negative equity position. The Company has recognized a damages provision of approximately $112 million after a $70 million damages award, $21 million enhanced damages award and an approximate $21 million damages for pre- and post-judgment interest in its litigation with CardiAQ (see Notes 13 and 21).

(Expressed in U.S. dollars)

5. FINANCIAL RISK MANAGEMENT

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

	Note		March 31, 2017		December 31, 2016
Loans and receivables					
Cash and cash equivalents	6	**$**	**16,206,632**	$	22,954,571
Cash held in escrow	7		**70,076,034**		70,000,000
Accounts receivable	8		**2,154,575**		3,117,474
Restricted cash	10		**450,360**		449,760
		$	**88,887,601**	$	96,521,805
Other financial liabilities					
Accounts payable and accrued liabilities	12	**$**	**2,004,783**	$	2,490,943

The carrying amounts of cash and cash equivalents, cash held in escrow, accounts receivable and accounts payable and accrued liabilities are considered a reasonable approximation of fair value due to their short term nature.

(a) Foreign exchange risk

The majority of the Company's revenues are derived from product sales in the United States and Europe ("EU"), primarily denominated in U.S. and EU 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. U.S. and EU currency represents approximately 46% and 54% of the revenue for the three months ended March 31, 2017 (2016: 59% and 41% respectively). A 10% change in the foreign exchange rates for the U.S. and EU currencies for foreign currency denominated accounts receivable will impact net income as at March 31, 2017 by approximately $74,000 and $38,000 respectively (as at December 31, 2016: $202,000 and $49,000), and a similar change for foreign currency denominated accounts payable will impact net income by approximately $78,000 and $3,000 respectively as at March 31, 2017 (as at December 31, 2016: $123,000 and $10,000). 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 rates. A 1% change in the interest rate on the investment in HISAs will impact net income as at March 31, 2017 by approximately $90,000 (2016: $216,000).

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

(c) Liquidity risk

As at March 31, 2017, the Company had $16,206,632 in cash and cash equivalents as compared to cash and cash equivalents of $22,954,571 at December 31, 2016. The cash used during the three months ended March 31, 2017 was $6,747,939. As at March 31, 2017, the Company had a working capital deficit of $24,221,853 as compared to $17,497,931 at December 31, 2016. The Company has been successful in staying the total approximate $112 million damages award against it in its litigation with CardiAQ and has placed $70 million in a joint escrow account. Unless the Company is successful in post-trial motions and/or an appeal of the verdict, or otherwise is unsuccessful in reducing the amount of these awards to less than the $70 million held in escrow, the Company will require significant additional financing in order to pay the damages and to continue to operate its business. There can be no assurance that such financing will be available on favorable terms, or at all (see Notes 1(b), 7, 13, and 21). Further to this and in the longer term, the Company is dependent on the profitable commercialization of its products or obtaining additional debt or equity financing to fund ongoing operations until profitability is achieved.

(Expressed in U.S. dollars)

5. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

The Company monitors its cash flow on a monthly basis and compares actual performance to the budget for the period. The Company believes it has sufficient funds to fund operations for the next 2-3 quarters. The Company may obtain additional debt or equity financing during that period. 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 March 31, 2017 and December 31, 2016, all the Company's non-derivative financial liabilities have maturities (including interest payments where applicable) within 6 months.

(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, 2017 is $1,231,984 (as at December 31, 2016: $2,532,114).

As at March 31, 2017, the Company had $267,712 (as at December 31, 2016: $1,555,469) of trade accounts receivable that were overdue, according to the customers' credit terms. During the three months ended March 31, 2017 the Company wrote down $40,000 of accounts receivable owed by customers (three months ended March 31, 2016: $4,859).

The Company may also have credit risk related to its cash and cash equivalents, and investments with a maximum exposure of $86,733,026 as at March 31, 2017 (as at December 31, 2016: $93,404,331). The Company minimizes its risk to cash and cash equivalents by dealing with Canadian Chartered Banks.

6. CASH AND CASH EQUIVALENTS

	March 31, 2017	December 31, 2016
Cash held in:		
Canadian dollars	**$ 5,868,504**	$ 6,386,135
United States dollars	**899,167**	7,231,160
Euros	**394,634**	344,242
Cashable Canadian dollar high interest savings accounts	**4,760,810**	4,713,385
Cashable United States dollar high interest savings accounts	**4,283,517**	4,279,649
	$ 16,206,632	$ 22,954,571

The high interest savings accounts are held in major Canadian Chartered Banks. They are fully cashable at any time and have a variable interest rate.

7. CASH HELD IN ESCROW

	March 31, 2017	December 31, 2016
Cash held in escrow	**$ 70,076,034**	$ 70,000,000

The Company has placed $70 million into a joint escrow account to partially cover the damages awarded against the Company in its lawsuit against CardiAQ (see Notes 13, and 21)). The joint escrow account is interest bearing at a rate of 0.5%.

(Expressed in U.S. dollars)

8. ACCOUNTS RECEIVABLE

	March 31, 2017	December 31, 2016
Trade receivables	$ **1,231,984**	$ 2,532,114
Other receivables	**922,591**	585,360
	$ **2,154,575**	$ 3,117,474

All amounts are short-term. The aging analysis of receivables is as follows:

	March 31, 2017	December 31, 2016
Not past due	$ **964,271**	$ 976,645
Past due 0 - 30 days	**26,535**	969,652
30 - 60 days	**20,539**	54,064
60 - 90 days	**13,393**	134,468
90 – 120 days	**22,057**	189,640
Over 120 days	**185,189**	207,645
	$ **1,231,984**	$ 2,532,114

All of the Company's trade and other receivables have been reviewed for impairment. During the three months ended March 31, 2017, the Company wrote down $40,000 of accounts receivable (three months ended March 31, 2016: $4,859).

9. INVENTORY

	March 31, 2017	December 31, 2016
Raw materials	$ **269,996**	$ 83,934
Work in progress	**20,450**	62,040
Finished goods	**170,275**	50,749
	$ **460,721**	$ 196,723

During the three months ended March 31, 2017 and 2016 the Company did not write down any obsolete inventory. During the three months ended March 31, 2017 $140,482 (three months ended March 31, 2016: $433,115) of inventory was expensed in cost of goods sold.

10. RESTRICTED CASH

	March 31, 2017	December 31, 2016
Restricted cash	$ **450,360**	$ 449,760

Restricted cash represents a C$600,000 security held by a Canadian Chartered Bank as a guarantee for the Company's same day electronic processing facility and corporate credit card facility.

(Expressed in U.S. dollars)

11. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Leasehold improvements	Production equipment	Computer hardware	Computer software	Office equipment	Total
COST								
Balance at January 1, 2016	**$ 374,766**	**$ 2,200,804**	**$ 118,009**	**$ 1,870,715**	**$ 431,090**	**$ 326,358**	**$ 276,245**	**$ 5,597,987**
Additions during the year	-	89,263	-	409,899	28,765	128,243	-	656,170
Disposals during the year	(157,791)	(1,994,191)	(84,808)	(964,018)	(45,641)	(41,724)	-	(3,288,173)
Cumulative translation adjustment	14,926	111,679	5,447	71,521	14,933	12,265	8,526	239,297
Balance as at December 31, 2016	**$ 231,901**	**$ 407,555**	**$ 38,648**	**$ 1,388,117**	**$ 429,147**	**$ 425,142**	**$ 284,771**	**$ 3,205,281**
Additions during the period	-	-	16,092	84,321	77,518	88,139	9,156	275,226
Cumulative translation adjustment	1,806	3,173	197	10,267	2,841	2,742	2,158	23,184
Balance as at March 31, 2017	**$ 233,707**	**$ 410,728**	**$ 54,937**	**$ 1,482,705**	**$ 509,506**	**$ 516,023**	**$ 296,085**	**$ 3,503,691**
ACCUMULATED DEPRECIATION								
Balance at January 1, 2016	**$ -**	**$ 335,239**	**$ 33,015**	**$ 834,027**	**$ 257,606**	**$ 268,926**	**$ 148,618**	**$ 1,877,431**
Depreciation for the year	-	77,205	50,101	402,426	61,645	137,682	26,675	755,734
Disposals during the year	-	(395,674)	(57,933)	(584,186)	(29,746)	(14,779)	-	(1,082,318)
Cumulative translation adjustment	-	18,130	1,567	31,536	7,694	5,647	4,225	68,799
Balance at December 31, 2016	**$ -**	**$ 34,900**	**$ 26,750**	**$ 683,803**	**$ 297,199**	**$ 397,476**	**$ 179,518**	**$ 1,619,646**
Depreciation for the period	-	3,780	14,081	55,761	15,083	16,782	5,796	111,283
Cumulative translation adjustment	-	247	117	4,971	2,217	2,987	1,361	11,900
Balance as at March 31, 2017	**$ -**	**$ 38,927**	**$ 40,948**	**$ 744,525**	**$ 314,499**	**$ 417,245**	**$ 186,675**	**$ 1,742,819**
CARRYING AMOUNTS								
As at December 31, 2016	**$ 231,901**	**$ 372,655**	**$ 11,898**	**$ 704,314**	**$ 131,948**	**$ 27,666**	**$ 105,253**	**$ 1,585,635**
As at March 31, 2017	**$ 233,707**	**$ 371,801**	**$ 13,989**	**$ 738,180**	**$ 195,007**	**$ 98,778**	**$ 109,410**	**$ 1,760,872**

(Expressed in U.S. dollars)

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2017	December 31, 2016
Trade payables	$ **587,838**	$ 943,922
Accrued vacation	**248,892**	217,036
Accrued liabilities	**889,921**	1,270,306
Other payables	**278,132**	59,679
	$ 2,004,783	**$ 2,490,943**

13. DAMAGES PROVISION

	March 31, 2017	December 31, 2016
Initial damages	$ **70,000,000**	$ 70,000,000
Enhanced damages	**21,000,000**	21,000,000
Pre-judgment interest	**20,675,154**	20,675,154
Accrued post-judgment interest	**317,826**	105,942
	$ 111,992,980	$ 111,781,096

On May 19, 2016, following a trial in Boston, Massachusetts, a jury awarded $70 million on certain trade secret claims made by CardiAQ. On October 31, 2016, during post-trial motions, the judge awarded $21 million in enhanced damages on those claims and on January 18, 2017 during post-trial motions the judge awarded $20,675,154 in pre-judgment interest and $2,354 per day in post-judgment interest from November 21, 2016. As at March 31, 2017, the Company has accrued $317,826 in post-judgment interest. The Company has been successful in staying the approximate $112 million in total damages awards and has placed $70 million in a joint escrow account. If the Company is not successful on appeal of the verdict, or otherwise is unsuccessful in reducing the amount of these awards to an amount less than the $70 million held in escrow, the Company will require significant additional financing in order to pay the damages and to continue to operate its business. There can be no assurance that such financing will be available on favorable terms, or at all. The Company intends to continue to vigorously defend itself during the appeal process and so the outcome of these matters, including whether the Company will be required to pay some or all of the approximate $112 million in total damages award is not currently determinable (see Notes 7 and 21).

14. SHARE CAPITAL

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

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

(a) Authorized

Unlimited number of common shares without par value.
Unlimited number of preferred shares without par value.

(b) Issued and outstanding

	Common Shares Number	Common Shares Amount	Contributed Surplus
Balance, January 1, 2016	**66,764,947**	**$ 161,505,037**	**$ 20,569,110**
Issued for cash pursuant to a private placement (i)	11,817,000	7,090,200	-
Share issue costs (i)	-	(35,540)	-
Issued for cash on exercise of options	101,398	152,976	(77,784)
Share-based payments	-	-	1,810,111
Balance, December 31, 2016	**78,683,345**	**$ 168,712,673**	**$ 22,301,437**
Issued for cash on exercise of options	16,000	33,363	(15,821)
Share-based payments	-	-	1,361,677
Balance, March 31, 2017	**78,699,345**	**$ 168,746,036**	**$ 23,647,293**

(Expressed in U.S. dollars)

14. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued)

(i) On December 12, 2016, the Company closed a non-brokered private placement of 11,817,000 common shares of the Company at a price per share of $0.60 for aggregate gross proceeds of $7,090,200. All of the shares issued were purchased by Boston Scientific Corporation ("Boston Scientific"). Immediately following the closing of the private placement Boston Scientific owned 15% of the issued and outstanding common shares of the Company. The share issue costs incurred by the Company were $35,540. Concurrent to, and contingent upon, the non-brokered private placement Boston Scientific purchased certain assets from the Company.

(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 were not issued under 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, 2016	**8,134,703**	**C$**	**3.92**	**2.22**
Granted	170,061		4.90	
Exercised	(101,398)		1.00	
Forfeited	(271,862)		6.37	
Expired	(56,800)		1.00	
Options outstanding, December 31, 2016	**7,874,704**	**C$**	**3.91**	**1.52**
Options exercisable, December 31, 2016	**6,800,066**	**C$**	**3.40**	**1.26**
Granted	1,744,500	C$	1.90	
Exercised	(16,000)		1.45	
Forfeited	(86,142)		3.17	
Options outstanding, March 31, 2017	**9,517,062**	**C$**	**3.54**	**1.99**
Options exercisable, March 31, 2017	**7,823,126**	**C$**	**3.26**	**1.56**

The following table lists the options outstanding at March 31, 2017 by exercise price:

Exercise price	**Options outstanding**	**Weighted average remaining term (yrs)**	**Options exercisable**	**Weighted average remaining term (yrs)**
C$0.01	79,482	0.81	79,482	0.81
C$0.02-1.99	5,179,200	1.80	4,403,600	1.23
C$2.00-4.99	1,012,111	1.30	920,768	1.12
C$5.00-6.99	2,396,169	2.36	1,958,476	2.22
C$7.00-9.99	398,600	3.10	191,000	3.06
C$10.00-13.00	451,500	2.96	269,800	2.95
	9,517,062		7,823,126	

(Expressed in U.S. dollars)

14. SHARE CAPITAL (continued)

(c) Stock options (continued)

The following table lists the options outstanding at December 31, 2016 by exercise price:

Exercise price	Options outstanding	Weighted average remaining term (yrs)	Options exercisable	Weighted average remaining term (yrs)
C$0.01	79,482	1.05	79,482	1.05
C$0.02-1.99	3,452,300	0.31	3,452,300	0.31
C$2.00-4.99	1,045,111	1.56	883,817	1.34
C$5.00-6.99	2,433,311	2.63	1,963,667	2.47
C$7.00-9.99	412,400	3.36	191,000	3.31
C$10.00-13.00	452,100	3.21	229,800	3.20
	7,874,704		6,800,066	

The weighted average share price at the date of exercise for share options exercised for the three months ended March 31, 2017 was $1.45 (three months ended March 31, 2016: $3.71). During the three months ended March 31, 2017, the Company recorded $1,361,677 as compensation expense for share-based compensation awarded to eligible optionees (three months ended March 31, 2016: $561,584). 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:

	2017	2016
Weighted average fair value	**$ 1.90**	$ 3.02
Dividend yield	**nil**	nil
Volatility	**110%**	76%
Risk-free interest rate	**1.12%**	0.75%
Expected life	**5 years**	5 years
Forfeiture rate	**6%**	1%

15. SEGMENT INFORMATION

The Company's operations are in one business segment; the development, manufacture and marketing of medical devices. Each of the Company's product lines has similar characteristics, customers, distribution and marketing strategies, and are subject to similar regulatory requirements. Substantially all of the Company's long-lived assets are located in Canada. The Company carries on business in Canada. The Company earns revenue from sales to customers in the following geographic locations:

	For the three months ended March 31,	
	2017	2016
REVENUE		
United States	**$ 327,899**	$ 890,206
Europe	**1,060,801**	996,926
Rest of the World	**92,660**	119,610
	$ 1,481,360	$ 2,006,742

Sales to the Company's three largest customers accounted for approximately 45%, 22%, and 8% of the Company's sales for the three months ended March 31, 2017. Sales to the Company's three largest customers accounted for approximately 37%, 26% and 19% of the Company's sales for the three months ended March 31, 2016.

(Expressed in U.S. dollars)

16. EMPLOYEE BENEFITS EXPENSE

	For the three months ended March 31, **2017**	2016
Salaries and wages	**$ 2,309,770**	$ 2,367,196
Pension plan and employment insurance	**190,659**	174,437
Contribution to defined contribution pension plan	**44,537**	51,371
Health benefits	**144,273**	247,251
Cash-based employee expenses	**2,689,239**	2,840,255
Share-based payments	**1,361,677**	561,584
Total employee expenses	**$ 4,050,916**	$ 3,401,839

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

	For the three months ended March 31, **2017**	2016
COST OF GOODS SOLD		
Depreciation	**$ 7,598**	$ 51,204
Share-based payments	**13,416**	78,327
Cash-based employee expenses	**647,132**	882,998
Other expenses	**140,482**	433,115
TOTAL COST OF GOODS SOLD	**$ 808,628**	$ 1,445,644
EXPENSES		
Selling expenses		
Share-based payments	**$ 9,886**	$ 40,681
Cash-based employee expenses	**24,711**	27,025
Other expenses	**152,571**	97,141
	187,168	164,847
General and administrative expenses		
Depreciation	**27,656**	30,627
Share-based payments	**655,769**	193,093
Cash-based employee expenses	**718,211**	639,570
Litigation expenses	**872,430**	4,036,860
Other expenses	**974,647**	927,255
	3,248,713	5,827,405
Product development and clinical trials expenses		
Depreciation	**76,029**	65,652
Share-based payments	**682,606**	249,483
Cash-based employee expenses	**1,299,185**	1,290,662
Other expenses	**2,995,703**	2,476,990
	5,053,523	4,082,787
TOTAL EXPENSES	**$ 8,489,404**	$ 10,075,039
Depreciation per Statements of Cash Flows	**$ 111,283**	$ 147,483
Share-based payments per Statements of Cash Flows	**$ 1,361,677**	$ 561,584
Cash-based employee expenses (see Note 16)	**$ 2,689,239**	$ 2,840,255

Litigation expenses are legal and other expenses incurred in litigation matters during the period. It does not include any provision or contingent liability estimated by management (See Note 21).

(Expressed in U.S. dollars)

18. OPERATING LEASES

The Company entered into an agreement for additional office space in September 2014 in Richmond, Canada. The agreement did not contain any contingent rent clauses, or purchase options or escalation clauses. The term of the lease was 36 months commencing on October 1, 2014. The lease contained an option to renew for an additional 36 months. In February 2017, the Company renewed the lease and added additional office premises. The term of the combined lease is 60 months commencing June 1, 2017. The amended agreement does not contain any contingent rent clauses, or purchase options or escalation clauses.

The Company entered into an agreement for additional office space in September 2014 in Minneapolis. The agreement did not contain any contingent rent clauses, or purchase options or escalation clauses. The original term of the lease was 66 months commencing on September 1, 2014. Additional office space was added in July 2015 in Minneapolis. The term of the combined lease is 69 months commencing on July 1, 2015. The lease contains an option to renew for an additional 36 months.

The Company entered into an agreement for additional office space in December 2016. 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 December 19, 2016.

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

	As at March 31, **2017**	2016
Year 1	**$ 257,546**	$ 219,477
Year 2	**342,852**	181,745
Year 3	**315,764**	78,109
Year 4	**284,198**	80,437
Year 5	**250,363**	13,536
	$ 1,450,723	$ 573,304

Lease payments recognized as an expense during the three months ended March 31, 2017 amounted to $160,580 (three months ended March 31, 2016: $56,247).

19. LOSS PER SHARE

Both the basic and diluted loss per share have been calculated using the loss attributable to shareholders of the Company as the numerator. The weighted average number of common shares outstanding used for basic loss per share for the three months ended March 31, 2017 was 78,691,167 shares (three months ended March 31, 2016: 66,817,945 shares).

	For the three months ended March 31, **2017**	2016
Weighted average number of common shares	**78,691,167**	66,817,945
Loss for the period	**$(7,844,987)**	$(10,881,138)
Basic loss per share	**$ (0.10)**	$ (0.16)

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

(Expressed in U.S. dollars)

20. RELATED PARTY TRANSACTIONS

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

	For the three months ended March 31, **2017**	2016
Short-term employee benefits		
Employee salaries and bonuses	**$ 428,979**	$ 299,397
Social security and medical care costs	**18,517**	13,525
Directors fees	**67,837**	63,757
	515,333	376,679
Post-employment benefits		
Contributions to defined contribution pension plan	**3,984**	3,797
Share-based payments	**920,414**	83,941
Total key management remuneration	**$ 1,439,731**	$ 464,417

21. CONTINGENT LIABILITIES AND PROVISIONS

Litigation expenses are legal and other expenses incurred in litigation matters during the period. The legal costs associated with defending legal claims in the current period include a lawsuit filed by CardiAQ in the U.S. District Court for the District of Massachusetts concerning intellectual property rights ownership, unfair trade practices and a breach of contract relating to Neovasc's transcatheter mitral valve technology, including the Tiara, a complaint filed by CardiAQ against Neovasc in Germany requesting that Neovasc assign its right to one of its European patent applications to CardiAQ and a securities class action lawsuit.

Litigation with CardiAQ

The Company is engaged as an appellant and a defendant in lawsuits involving CardiAQ, as further described below. Litigation resulting from CardiAQ's claims is expected to be costly and time-consuming and could divert the attention of management and key personnel from our business operations. Although we intend to vigorously defend ourselves against these claims, we cannot assure that we will succeed in appealing and defending any of these claims and that judgments will not be upheld against us. If we are unsuccessful in our appeal and defense of these claims or unable to settle the claims in a manner satisfactory to us, we may be faced with significant monetary damages and/or loss of intellectual property rights, that could have a material adverse effect on the Company and its financial condition. These circumstances indicate the existence of a material uncertainty and cast material doubt on the Company's ability to continue as a going concern.

On June 6, 2014, Neovasc was named in a lawsuit filed by CardiAQ in the U.S. District Court for the District of Massachusetts ("the Court") concerning intellectual property rights ownership, unfair trade practices and breach of contract relating to Neovasc's transcatheter mitral valve technology, including the Tiara.

On June 23, 2014, CardiAQ also filed a complaint against Neovasc in Munich, Germany ("the German Court") requesting that Neovasc assign its right to one of its European patent applications to CardiAQ. The German Court is expected to render its decision in May 2017 after a hearing which was held on December 14, 2016. There are no monetary awards associated with these matters and no damages award has been recognized.

On April 25, 2016, the Court granted Neovasc's motion for summary judgment on CardiAQ's claim for fraud.

On May 19, 2016, following a trial in Boston, Massachusetts, a jury found in favor of CardiAQ and awarded $70 million on the trade secret claim for relief, and no damages on the contractual claims for relief.

On May 27, 2016, the Court granted Neovasc's motion for judgment as a matter of law on the Massachusetts Gen. Law. Ch. 93A claim.

Following post-trial motions, on October 31, 2016, the Court awarded CardiAQ $21 million in enhanced damages on the trade secret claim for relief, and denied Neovasc's motions for a new trial.

21. CONTINGENT LIABILITIES AND PROVISIONS (continued)

On October 31, 2016, the Court also denied CardiAQ's motion for an injunction that would have shut down the development of the Tiara, thus allowing the Company to continue development and commercialization of the Tiara. The Court issued an injunction requiring Neovasc to certify, by November 7, 2016, destruction of information that CardiAQ sent to Neovasc during the parties' 2009-2010 business relationship, destruction of any related work product that incorporates such information, and return of any related CardiAQ prototypes. The Company filed a timely certification of compliance with this injunction.

In the cause of action relating to patent inventorship, CardiAQ claimed that two individuals should be added as inventors to a Neovasc patent. In the October 31, 2016 order, the Court also ruled on the patent inventorship claim. In that order, the Court ruled in favor of CardiAQ on the issue of inventorship of Neovasc's patent. There are no monetary awards associated with these matters and no damages award has been recognized. The Company is appealing this decision of the Court. Unless the Company is successful at appeal, two individuals associated with CardiAQ will be added as inventors to Neovasc's patent.

On December 23, 2016, the Court issued a stipulated order under which enforcement of the judgment was stayed pending appeal, pursuant to which Neovasc placed $70 million in a joint escrow account and also executed a General Security Agreement with CardiAQ on January 5, 2017. Neovasc will also require court approval for transactions outside the course of normal business until such time that an appeal is decided in Neovasc's favor or the Company posts the remaining amount of money judgment into the joint escrow account.

On January 18, 2017, the Court issued a final judgment, and granted CardiAQ's motion for pre- and post-judgment interest. The Court awarded $20,675,154 in pre-judgment interest and $2,354 per day in post-judgment interest from November 21, 2016.

Neovasc filed a renewed notice of appeal with the United States Court of Appeals for the Federal Circuit (the "Appeals Court") on January 18, 2017. CardiAQ subsequently filed a notice of cross-appeal. Neovasc moved the Appeals Court to expedite its appeal on January 24, 2017. The Company will appeal the validity of the award, the ruling on inventorship, and related issues stemming from the trial court verdict and October 31 order. The appellate process may take up to a year to complete.

On February 28, 2017, Neovasc filed its opening appellate brief in the Appeals Court. On April 21, CardiAQ filed its principal appellate brief responding to Neovasc's opening brief and arguing its cross-appeal on the Court's denial of its request for injunctive relief. Neovasc expects oral argument on its appeal in August 2017 and a ruling is expected to follow a few months afterward. With respect to CardiAQ's cross-appeal, the standard of review is abuse of discretion. If the Federal Circuit were to rule that the trial court abused its discretion in denying injunctive relief, it would in that case likely remand to the trial court for further proceedings. One potential outcome among others could be an injunction prohibiting Neovasc from further operating its Tiara business for some period of time.

On March 24, 2017, CardiAQ filed a related lawsuit in the Court, asserting two claims for correction of patent inventorship as to Neovasc's U.S. Patents Nos. 9,241,790 and 9,248,014. The lawsuit does not seek money damages and would not prevent the Company from practicing these patents. The Company has not yet filed its response to the complaint.

When the Company assesses that it is more likely that a present obligation exists at the end of the reporting period and that the possibility of an outflow of economic resources embodying economic benefits is probable, a provision is recognized and contingent liability disclosure is required. As at March 31, 2017, the Company has fully provided for the damages awards described above (see Note 13).

Securities Class Action Lawsuit

On June 6, 2016, an alleged purchaser of Neovasc common shares filed a lawsuit, on behalf of a putative class of purchasers of Neovasc securities, against Neovasc (as well as against Chief Executive Officer, Alexei Marko, and Chief Financial Officer, Christopher Clark) in the Court concerning alleged violations of the United States securities laws. The case is styled as Sergio Grobler, individually and on behalf of all others similarly situated v. Neovasc Inc., Alexei Marko, and Christopher Clark, Case No. 1:16-cv-11038-RGS. The complaint filed in the lawsuit, which principally based the plaintiff's claims on the Company's prior disclosures regarding the lawsuit filed by CardiAQ in the Court, did not specify the amount of damages sought. On November 22, 2016, the Court granted the Company's and the officers' motion to dismiss, dismissing the lawsuit in its entirety and denying the plaintiff leave to amend the complaint. The plaintiff filed a motion to vacate the order dismissing the lawsuit, and, on January 12, 2017, the Court denied that motion. The case is now closed. Following the ruling on the motion to vacate, and as of the present time, the plaintiff has not appealed the dismissal of the lawsuit. Whether the plaintiff will take any action to engage in future proceedings concerning this matter is not currently determinable, nor would it be possible to accurately predict the outcome or quantum of any such future proceedings to the Company at this time.

21. CONTINGENT LIABILITIES AND PROVISIONS (continued)

Securities Class Action Lawsuit (continued)

When the Company assesses that it is more likely that no present obligation exists at the end of the reporting period and that the possibility of an outflow of economic resources embodying economic benefits is remote, no provision is recognized and no contingent liability disclosure is required.

Other Matters

By way of Amended Statement of Claim in Federal Court of Canada Action T-1831-16 (the "Action") Neovasc Inc. and Neovasc Medical Inc. (the "Neovasc Defendants") were added as defendants to an existing action commenced by Edwards Lifesciences PVT, Inc. and Edwards Lifesciences (Canada) Inc. against Livanova Canada Corp., Livanova PLC, Boston Scientific Corporation and Boston Scientific Ltd. (collectively, the "BSC/Livanova Defendants"). The Action was first filed in October 2016 and first concerned an allegation by the plaintiffs that the manufacturing, assembly, use, sale and export of the Lotus Aortic Valve devices by the BSC/Livanova Defendants infringes on the plaintiffs' patents. In February, 2017, the Neovasc Defendants were added to the plaintiffs' claim making related allegations. In summary, the plaintiffs make three types of allegations as against the Neovasc Defendants: (a) indirect infringement claims; (b) direct infringement claims; and (c) claims of inducement. The plaintiffs seek various declarations, injunctions and unspecified damages and costs. Defenses have yet to be filed. The Neovasc Defendants intend to vigorously defend themselves.

When the Company assesses that it is more likely that no present obligation exists at the end of the reporting period and that the possibility of an outflow of economic resources embodying economic benefits is remote, no provision is recognized and no contingent liability disclosure is required.

22. AUTHORIZATION OF FINANCIAL STATEMENTS

The condensed interim consolidated financial statements for the three months ended March 31, 2017 (including comparatives) were approved by the audit committee on behalf of the board of directors on May 9, 2017.

(signed) ***Alexei Marko***

Alexei Marko, Director

(signed) ***Steve Rubin***

Steve Rubin, Director