Neovasc Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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	June 30, 2017	December 31, 2016
ASSETS			
Current assets			
Cash and cash equivalents	6	**$ 11,580,940**	$ 22,954,571
Cash held in escrow	7	**70,190,184**	70,000,000
Accounts receivable	8	**1,512,689**	3,117,474
Inventory	9	**424,742**	196,723
Prepaid expenses and other assets		**919,800**	505,340
Total current assets		**84,628,355**	96,774,108
Non-current assets			
Restricted cash	10	**462,360**	449,760
Property, plant and equipment	11	**1,787,762**	1,585,635
Total non-current assets		**2,250,122**	2,035,395
Total assets		**$ 86,878,477**	$ 98,809,503
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12	**$ 2,198,623**	$ 2,490,943
Damages provision	13	**112,207,219**	111,781,096
Total current liabilities and total liabilities		**114,405,842**	114,272,039
Equity			
Share capital	14	**169,138,524**	168,712,673
Contributed surplus	14	**23,835,573**	22,301,437
Accumulated other comprehensive loss		**(5,531,561)**	(4,693,040)
Deficit		**(214,969,901)**	(201,783,606)
Total equity		**(27,527,365)**	(15,462,536)
Total liabilities and equity		**$ 86,878,477**	$ 98,809,503

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

NEOVASC INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three and six months ended June 30,
(Expressed in U.S. dollars) (Unaudited)

	Notes	For the three months ended June 30, 2017	For the three months ended June 30, 2016	For the six months ended June 30, 2017	For the six months ended June 30, 2016
REVENUE					
Reducer		**$ 247,555**	$ 246,122	**$ 508,320**	$ 459,887
Contract manufacturing		**152,717**	240,837	**286,680**	847,620
Consulting services		**904,864**	1,223,973	**1,991,496**	2,410,167
	15	**1,305,136**	1,710,932	**2,786,496**	3,717,674
COST OF GOODS SOLD	17	**872,703**	1,391,708	**1,681,331**	2,837,352
GROSS PROFIT		**432,433**	319,224	**1,105,165**	880,322
EXPENSES					
Selling expenses	17	**224,382**	181,174	**411,550**	346,021
General and administrative expenses	17	**2,253,219**	7,427,124	**5,501,932**	13,254,529
Product development and clinical trials expenses	17	**4,250,780**	5,705,035	**9,304,303**	9,787,822
		6,728,381	13,313,333	**15,217,785**	23,388,372
OPERATING LOSS		**(6,295,948)**	(12,994,109)	**(14,112,620)**	(22,508,050)
OTHER INCOME/(EXPENSE)					
Interest income		**127,255**	46,525	**217,224**	135,799
Interest on damages provision		**(214,239)**	-	**(426,123)**	-
Damages provision		**-**	(70,000,000)	**-**	(70,000,000)
Foreign exchange gain		**4,644,823**	(694,956)	**3,289,162**	(2,103,253)
Unrealized loss on damages provision		**(3,544,913)**	-	**(2,039,038)**	-
		1,012,926	(70,648,431)	**1,041,225**	(71,967,454)
LOSS BEFORE TAX		**(5,283,022)**	(83,642,540)	**(13,071,395)**	(94,475,504)
Tax expense		**(58,286)**	(49,920)	**(114,900)**	(98,094)
LOSS FOR THE PERIOD		**$ (5,341,308)**	$ (83,692,460)	**$ (13,186,295)**	$ (94,573,598)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD					
Exchange difference on translation		**2,788,709**	628,206	**1,200,517**	3,917,642
Unrealized loss on damages provision		**(3,544,913)**	-	**(2,039,038)**	-
		(756,204)	628,206	**(838,521)**	3,917,642
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		**$ (6,097,512)**	$ (83,064,254)	**$ (14,024,816)**	$ (90,655,956)
LOSS PER SHARE					
Basic and diluted loss per share	19	**$ (0.07)**	$ (1.25)	**$ (0.17)**	$ (1.41)

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		152,976	(77,784)	-	-	75,192
Share-based payments		-	1,230,989	-	-	1,230,989
Transaction with owners during the period		152,976	1,153,205	-	-	1,306,181
Loss for the period		-	-	-	**(94,573,598)**	**(94,573,598)**
Other comprehensive loss for the period		-	-	**3,917,642**	-	**3,917,642**
Balance at June 30, 2016		**$ 161,658,013**	**$ 21,722,315**	**$ (4,872,369)**	**$ (209,862,311)**	**$ (31,354,352)**
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	425,851	(201,384)	-	-	224,467
Share-based payments	17	-	1,735,520	-	-	1,735,520
Transaction with owners during the period		425,851	1,534,136	-	-	1,959,987
Loss for the period		-	-	-	**(13,186,295)**	**(13,186,295)**
Other comprehensive income for the period		-	-	**(838,521)**	-	**(838,521)**
Balance at June 30, 2017		**$ 169,138,524**	**$ 23,835,573**	**$ (5,531,561)**	**$ (214,969,901)**	**$ (27,527,365)**

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Condensed Interim Consolidated Statements of Cash Flows

For the three and six months ended June 30,
(Expressed in U.S. dollars) (Unaudited)

	Notes	For the three months ended June 30, 2017	For the three months ended June 30, 2016	For the six months ended June 30, 2017	For the six months ended June 30, 2016
OPERATING ACTIVITIES					
Loss for the period		**$ (5,341,308)**	$ (83,692,460)	**$(13,186,295)**	$ (94,573,598)
Adjustments for:					
Depreciation	17	**134,445**	199,497	**245,728**	346,980
Share-based payments	17	**373,843**	669,405	**1,735,520**	1,230,989
Damages provision		**214,239**	70,000,000	**426,123**	70,000,000
Write-down accounts receivable		**-**	-	**40,000**	4,859
Income tax expense		**59,421**	-	**116,035**	-
Interest income		**(127,255)**	(46,525)	**(217,224)**	(135,799)
		(4,686,615)	(12,870,083)	**(10,840,113)**	(23,126,569)
Net change in non-cash working capital items:					
Accounts receivable		**674,885**	(130,686)	**1,630,388**	(173,935)
Inventory		**46,571**	(435,245)	**(217,608)**	(920,155)
Prepaid expenses and other assets		**37,912**	9,687	**(389,780)**	(255,207)
Accounts payable and accrued liabilities		**135,521**	2,321,390	**(373,337)**	2,385,879
		894,889	1,765,146	**649,663**	1,036,582
Interest received		**13,862**	54,982	**103,831**	136,320
Income tax paid		**(114,900)**	-	**(114,900)**	-
		(101,038)	54,982	**(11,069)**	136,320
Net cash applied to operating activities		**(3,892,764)**	(11,049,955)	**(10,201,519)**	(21,953,667)
INVESTING ACTIVITES					
Increase in cash held in escrow		**(114,150)**	-	**(190,184)**	-
Purchase of property, plant and equipment	11	**(115,115)**	(225,951)	**(390,341)**	(531,536)
Net cash applied to investing activities		**(229,265)**	(225,951)	**(580,525)**	(531,536)
FINANCING ACTIVITIES					
Proceeds from exercise of options	14	**206,925**	26,698	**224,467**	75,192
Net cash received from financing activities		**206,925**	26,698	**224,467**	75,192
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(3,915,104)**	(11,249,208)	**(10,557,577)**	(22,410,011)
CASH AND CASH EQUIVALENTS					
Beginning of the period		**16,206,632**	46,903,192	**22,954,571**	55,026,171
Exchange difference on cash and cash equivalents		**(710,588)**	623,809	**(816,054)**	3,661,633
End of the period		**$ 11,580,940**	$ 36,277,793	**$ 11,580,940**	$ 36,277,793
Represented by:					
Cash	6	**6,396,379**	18,675,154	**6,396,379**	18,675,154
Cashable high interest savings accounts	6	**5,184,561**	17,602,639	**5,184,561**	17,602,639
		$ 11,580,940	$ 36,277,793	**$ 11,580,940**	$ 36,277,793

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 June 30, 2017 and for the three and six months ended June 30, 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 June 30, 2017, the Company had $11,580,940 in cash and cash equivalents and a working capital deficit of $29,777,487. 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 and six months ended June 30, 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 and six months ended June 30, 2017 and 2016 there were no changes in the Company's capital management policy.

The capital of the Company is comprised of:

	June 30, 2017	December 31, 2016
Equity	**$ (27,527,365)**	$ (15,462,536)

As at June 30, 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		June 30, 2017		December 31, 2016
Loans and receivables					
Cash and cash equivalents	6	**$**	**11,580,940**	$	22,954,571
Cash held in escrow	7		**70,190,184**		70,000,000
Accounts receivable	8		**1,512,689**		3,117,474
Restricted cash	10		**462,360**		449,760
		$	**83,746,173**	$	96,521,805
Other financial liabilities					
Accounts payable and accrued liabilities	12	**$**	**2,198,623**	$	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 ("U.S.") 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 31% and 69% of the revenue for the three and six months ended June 30, 2017 (2016: 55% and 45% 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 June 30, 2017 by approximately $39,000 and $88,000 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 $96,000 and $11,000 respectively as at June 30, 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 June 30, 2017 by approximately $51,846 (2016: $176,026).

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 June 30, 2017, the Company had $11,580,940 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 and six months ended June 30, 2017 was $4,625,692 and $11,373,631, respectively. As at June 30, 2017, the Company had a working capital deficit of $29,777,487 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 June 30, 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 June 30, 2017 is $1,269,949 (as at December 31, 2016: $2,532,114).

As at June 30, 2017, the Company had $318,946 (as at December 31, 2016: $1,555,469) of trade accounts receivable that were overdue, according to the customers' credit terms. During the three and six months ended June 30, 2017 the Company wrote down $nil and $40,000, respectively, of accounts receivable owed by customers (three and six months ended June 30, 2016: $nil and $4,859, respectively).

The Company may also have credit risk related to its cash and cash equivalents, and investments with a maximum exposure of $82,233,484 as at June 30, 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

	June 30, 2017	December 31, 2016
Cash held in:		
Canadian dollars	**$ 4,682,522**	$ 6,386,135
United States dollars	**1,539,409**	7,231,160
Euros	**174,448**	344,242
Cashable Canadian dollar high interest savings accounts	**4,898,941**	4,713,385
Cashable United States dollar high interest savings accounts	**285,620**	4,279,649
	$ 11,580,940	$ 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

	June 30, 2017	December 31, 2016
Cash held in escrow	**$ 70,190,184**	$ 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

		June 30, 2017		December 31, 2016
Trade receivables	$	1,269,949	$	2,532,114
Other receivables		242,740		585,360
	$	1,512,689	$	3,117,474

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

		June 30, 2017		December 31, 2016
Not past due	$	951,003	$	976,645
Past due 0 - 30 days		29,222		969,652
30 - 60 days		257,145		54,064
60 - 90 days		4,138		134,468
90 – 120 days		28,229		189,640
Over 120 days		116,902		287,645
Allowance for doubtful accounts		(116,690)		(120,000)
	$	1,269,949	$	2,532,114

All of the Company's trade and other receivables have been reviewed for impairment. During the three and six months ended June 30, 2017, the Company wrote down $nil and $40,000 of accounts receivable, respectively (three and six months ended June 30, 2016: $4,859).

9. INVENTORY

		June 30, 2017		December 31, 2016
Raw materials	$	167,519	$	83,934
Work in progress		60,721		62,040
Finished goods		196,501		50,749
	$	424,742	$	196,723

During the three and six months ended June 30, 2017 and 2016 the Company did not write down any obsolete inventory. During the three and six months ended June 30, 2017 $216,569 and $357,051 respectively (three and six months ended June 30, 2016: $466,611 and $1,132,283, respectively) of inventory was expensed in cost of goods sold.

10. RESTRICTED CASH

		June 30, 2017		December 31, 2016
Restricted cash	$	462,360	$	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	146,388	77,518	141,187	9,156	390,341
Cumulative translation adjustment	8,033	14,117	1,661	52,017	16,417	18,411	10,048	120,704
Balance as at June 30, 2017	**$ 239,934**	**$ 421,672**	**$ 56,401**	**$ 1,586,522**	**$ 523,082**	**$ 584,740**	**$ 303,975**	**$ 3,716,326**
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	-	7,501	27,941	118,291	30,688	49,800	11,507	245,728
Cumulative translation adjustment	-	1,419	1,710	27,066	11,161	15,300	6,534	63,190
Balance as at June 30, 2017	**$ -**	**$ 43,820**	**$ 56,401**	**$ 829,160**	**$ 339,048**	**$ 462,576**	**$ 197,559**	**$ 1,928,564**
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 June 30, 2017	**$ 239,934**	**$ 377,852**	**$ -**	**$ 757,362**	**$ 184,034**	**$ 122,164**	**$ 106,416**	**$ 1,787,762**

(Expressed in U.S. dollars)

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		June 30, 2017		December 31, 2016
Trade payables	**$**	**778,977**	$	943,922
Accrued vacation		**254,231**		217,036
Accrued liabilities		**798,826**		1,270,306
Other payables		**366,589**		59,679
	$	**2,198,623**	$	2,490,943

13. DAMAGES PROVISION

		June 30, 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		**532,065**		105,942
	$	**112,207,219**	$	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 June 30, 2017, the Company has accrued $532,065 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		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	214,000		425,851		(201,384)
Share-based payments	-		-		1,735,520
Balance, June 30, 2017	**78,897,345**	**$**	**169,138,524**	**$**	**23,835,573**

(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$**	**3.40**	**1.26**
Granted	1,844,500	C$	1.90	
Exercised	(214,000)		1.41	
Forfeited	(87,188)		4.33	
Expired	(112,379)		5.46	
Options outstanding, June 30, 2017	**9,305,637**	**C$**	**3.55**	**1.96**
Options exercisable, June 30, 2017	**7,677,401**	**C$**	**3.35**	**1.56**

The following table lists the options outstanding at June 30, 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	0.56	79,482	0.56
C$0.02-1.99	5,073,600	1.97	4,225,600	1.40
C$2.00-4.99	971,397	1.05	890,854	0.87
C$5.00-6.99	2,363,658	2.10	1,991,365	1.95
C$7.00-9.99	373,000	2.83	193,400	2.70
C$10.00-13.00	444,500	2.71	269,700	2.71
	9,305,637		7,677,401	

(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 and six months ended June 30, 2017 was $1.60 (three and six months ended June 30, 2016: $3.79 and $4.72, respectively). During the three and six months ended June 30, 2017, the Company recorded $373,843 and $1,735,520, respectively, as compensation expense for share-based compensation awarded to eligible optionees (three and six months ended June 30, 2016: $669,405 and $1,230,989, respectively). 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 and 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,	
	2017	2016	**2017**	2016
REVENUE				
United States	**$ 145,149**	$ 552,093	**$ 473,048**	$ 1,442,299
Europe	**1,022,664**	1,005,579	**2,083,465**	2,002,505
Rest of the World	**137,323**	153,260	**229,983**	272,870
	$ 1,305,136	$ 1,710,932	**$ 2,786,496**	$ 3,717,674

Sales to the Company's four largest customers accounted for approximately 52%, 16%, 6%, and 6% of the Company's sales for the six months ended June 30, 2017. Sales to the Company's four largest customers accounted for approximately 40%, 21%,18%, and 5% of the Company's sales for the six months ended June 30, 2016.

(Expressed in U.S. dollars)

16. EMPLOYEE BENEFITS EXPENSE

	For the three months ended June 30, **2017**	For the three months ended June 30, 2016	For the six months ended June 30, **2017**	For the six months ended June 30, 2016
Salaries and wages	**$ 2,140,834**	$ 2,662,465	**$ 4,450,604**	$ 5,029,663
Pension plan and employment insurance	**131,636**	165,192	**322,295**	339,630
Contribution to defined contribution pension plan	**47,147**	54,659	**91,684**	106,030
Health benefits	**152,696**	247,752	**296,969**	495,002
Cash-based employee expenses	**2,472,313**	3,130,068	**5,161,552**	5,970,325
Share-based payments	**373,843**	669,405	**1,735,520**	1,230,989
Total employee expenses	**$ 2,846,156**	$ 3,799,473	**$ 6,897,072**	$ 7,201,314

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

	For the three months ended June 30, **2017**	For the three months ended June 30, 2016	For the six months ended June 30, **2017**	For the six months ended June 30, 2016
COST OF GOODS SOLD				
Depreciation	**$ 11,261**	$ 57,121	**$ 18,859**	$ 108,325
Share-based payments	**22,126**	19,051	**35,542**	78,429
Cash-based employee expenses	**622,747**	848,925	**1,269,879**	1,518,315
Other expenses	**216,569**	466,611	**357,051**	1,132,283
	872,703	1,391,708	**1,681,331**	2,837,352
EXPENSES				
Selling expenses				
Share-based payments	**$ 36,254**	$ 43,357	**$ 46,140**	$ 84,038
Cash-based employee expenses	**37,820**	27,986	**62,531**	55,012
Other expenses	**150,308**	109,831	**302,879**	206,971
	224,382	181,174	**411,550**	346,021
General and administrative expenses				
Depreciation	**30,364**	39,789	**58,021**	70,416
Share-based payments	**119,727**	230,444	**775,496**	423,537
Cash-based employee expenses	**656,107**	674,518	**1,374,318**	1,314,088
Litigation expenses	**608,336**	5,793,271	**1,480,766**	9,830,131
Other expenses	**838,685**	689,102	**1,813,331**	1,616,357
	2,253,219	7,427,124	**5,501,932**	13,254,529
Product development and clinical trials expenses				
Depreciation	**92,820**	102,587	**168,848**	168,239
Share-based payments	**195,736**	376,553	**878,342**	644,985
Cash-based employee expenses	**1,155,639**	1,578,639	**2,454,824**	3,082,910
Other expenses	**2,806,585**	3,647,256	**5,802,289**	5,891,688
	4,250,780	5,705,035	**9,304,303**	9,787,822
TOTAL EXPENSES	**$ 6,728,381**	$ 13,313,333	**$ 15,217,785**	$ 23,388,372
Depreciation per Statements of Cash Flows	**$ 134,445**	$ 199,497	**$ 245,728**	$ 346,980
Share-based payments per Statements of Cash Flows	**$ 373,843**	$ 669,405	**$ 1,735,520**	$ 1,230,989
Cash-based employee expenses (see Note 16)	**$ 2,472,313**	$ 3,130,068	**$ 5,161,552**	$ 5,970,325

(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 in Richmond, Canada. 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 June 30, **2017**	2016
Year 1	**$ 331,254**	$ 218,497
Year 2	**315,466**	187,094
Year 3	**314,249**	77,524
Year 4	**257,034**	79,849
Year 5	**257,034**	47,372
	$ 1,475,037	$ 610,336

Lease payments recognized as an expense during the three and six months ended June 30, 2017 amounted to $70,904 and $231,484 (three and six months ended June 30, 2016: $98,684 and $201,743).

19. LOSS PER SHARE

Both the basic and diluted loss per share have been calculated using the loss attributable to shareholders of the Company as the numerator. The weighted average number of common shares outstanding used for basic loss per share for the three and six months ended June 30, 2017 was 78,831,389 and 78,830,063 shares, respectively (three and six months ended June 30, 2016: 66,856,444 and 66,837,195 shares, respectively).

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	**2017**	2016
Weighted average number of common shares	**78,831,389**	66,856,444	**78,830,063**	66,837,195
Loss for the period	**$ (5,341,308)**	$ (83,692,460)	**$ (13,186,295)**	$ (94,573,598)
Basic loss per share	**$ (0.07)**	$ (1.25)	**$ (0.17)**	$ (1.41)

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 June 30,		For the six months ended June 30,	
	2017	2016	**2017**	2016
Short-term employee benefits				
Employee salaries and bonuses	**$ 318,543**	$ 304,949	**$ 747,522**	$ 604,346
Directors fees	**63,267**	48,972	**131,104**	112,729
Social security and medical care costs	**11,020**	9,253	**29,537**	22,778
	392,830	363,174	**908,163**	739,853
Post-employment benefits				
Contributions to defined contribution pension plan	**3,983**	3,920	**7,967**	7,717
Share-based payments	**29,125**	64,292	**949,539**	148,233
Total key management remuneration	**$ 425,938**	$ 431,386	**$ 1,865,669**	$ 895,803

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, and a complaint filed by CardiAQ against Neovasc in Germany requesting that Neovasc assign its right to one of its European patent applications to CardiAQ.

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. After a hearing held on December 14, 2016, the German Court rendered its decision on June 16, 2017, granting co-ownership of the European patent application to CardiAQ but denying their claim for full entitlement. There are no monetary awards associated with these matters and no damages award has been recognized. On July 14, 2017, Neovasc filed a notice of appeal against the German Court's decision with the Appeals Court of Munich. On July 20, 2017, CardiAQ filed a notice of appeal with the same court. The appeal process is expected to take at least one year to complete.

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.

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. Oral argument took place before a three-judge panel of the Appeals Court on August 8, 2017. As is always the case in this context, the panel did not announce any decision, and it is most likely that its decision will be handed down in three to four months. 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 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. To the extent that the Appeals Court panel hands down any adverse opinion, one option for Neovasc would be to seek rehearing by the panel or by the en banc Federal Circuit.

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 June 30, 2017, the Company has fully provided for the damages awards described above (see Note 13).

21. CONTINGENT LIABILITIES AND PROVISIONS (continued)

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 and six months ended June 30, 2017 (including comparatives) were approved by the audit committee on behalf of the board of directors on August 9, 2017.

(signed) ***Alexei Marko***

Alexei Marko, Director

(signed) ***Steve Rubin***

Steve Rubin, Director