Neovasc Inc.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(Expressed in Canadian dollars)

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NEOVASC INC.

Notice of No Auditor's Review of Interim Consolidated Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim consolidated financial statements they must be accompanied by a notice that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by management and approved by the audit committee and board of directors of the Company.

The Company's independent auditors have not performed a review of these interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

NEOVASC INC.

Interim Consolidated Statements of Financial Position (Unaudited)

(Expressed in Canadian dollars)

	Notes	September 30, 2013	December 31, 2012 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents	6	**$ 4,172,285**	$ 5,861,120
Accounts receivable	7	**2,127,960**	1,248,271
Inventory	8	**478,085**	191,942
Prepaid expenses and other assets		**58,167**	29,891
Total current assets		**6,836,497**	7,331,224
Non-current assets			
Property, plant and equipment	9	**2,294,725**	1,467,372
Total non-current assets		**2,294,725**	1,467,372
Total assets		**$ 9,131,222**	$ 8,798,596
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	**$ 1,436,547**	$ 1,067,283
Current portion of long-term debt	11	**43,342**	42,540
Total current liabilities		**1,479,889**	1,109,823
Non-current liabilities			
Long-term debt	11	**210,377**	241,083
Total non-current liabilities		**210,377**	241,083
Total liabilities		**1,690,266**	1,350,906
Equity			
Share capital	12	**73,398,691**	70,421,185
Contributed surplus	12	**9,924,393**	8,370,258
Deficit		**(75,882,128)**	(71,343,753)
Total equity		**7,440,956**	7,447,690
Total liabilities and equity		**$ 9,131,222**	$ 8,798,596

See Accompanying Notes to the Interim Consolidated Financial Statements

NEOVASC INC.

Interim Consolidated Statements of Comprehensive Loss (Unaudited)
For the three and nine months ended September 30,
(Expressed in Canadian dollars)

	Notes	Three months ended September 30, **2013**	Three months ended September 30, 2012	Nine months ended September 30, **2013**	Nine months ended September 30, 2012
REVENUE					
Product sales		**$ 654,809**	$ 946,117	**$ 2,011,688**	$ 2,397,985
Contract manufacturing		**583,466**	527,557	**1,679,976**	1,327,363
Consulting services		**2,395,616**	532,266	**4,744,422**	1,628,191
	14	**3,633,891**	2,005,940	**8,436,096**	5,353,539
COST OF GOODS SOLD	15	**2,160,092**	1,275,096	**5,027,528**	3,149,177
GROSS PROFIT		**1,473,799**	730,844	**3,408,558**	2,204,362
EXPENSES					
Selling expenses	15	**7,366**	40,503	**60,058**	132,513
General and administrative expenses	15	**1,009,473**	937,202	**3,663,868**	3,094,474
Product development and clinical trials expenses	15	**1,878,943**	950,275	**4,481,123**	2,950,761
		2,895,782	1,927,980	**8,205,049**	6,177,748
OPERATING LOSS		**(1,421,983)**	(1,197,136)	**(4,796,491)**	(3,973,386)
OTHER INCOME/(EXPENSE)					
Interest income		**-**	5,950	**-**	27,783
Interest expense		**(2,240)**	(2,584)	**(6,951)**	(8,000)
Gain/(loss) on foreign exchange		**(15,603)**	(13,144)	**265,067**	(34,957)
		(17,843)	(9,778)	**258,116**	(15,174)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		**$ (1,439,826)**	$ (1,206,914)	**$ (4,538,375)**	$ (3,988,560)
LOSS PER SHARE					
Basic and diluted loss per share	17	**$ (0.03)**	$ (0.03)	**$ (0.10)**	$ (0.09)

See Accompanying Notes to the Interim Consolidated Financial Statements

NEOVASC INC.

Interim Consolidated Statements of Changes in Equity (Unaudited)

(Expressed in Canadian dollars)

	Notes	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at January 1, 2012		**$ 70,220,381**	**$ 6,158,434**	**$ (70,992,385)**	**$ 5,386,430**
Issue of share capital on exercise of options		166,748	(152,425)	-	14,323
Share-based payments		-	1,876,815	-	1,876,815
Transaction with owners during the period		**166,748**	**1,724,390**	**-**	**1,891,138**
Loss and comprehensive loss for the period		**-**	**-**	**(3,988,560)**	**(3,988,560)**
Balance at September 30, 2012		**$ 70,387,129**	**$ 7,882,824**	**$ (74,980,945)**	**$ 3,289,008**
Balance at January 1, 2013		**$ 70,421,185**	**$ 8,370,258**	**$ (71,343,753)**	**$ 7,447,690**
Issue of share capital on exercise of warrants	12(b)(ii)	2,919,062	-	-	2,919,062
Issue of share capital on exercise of options	12(b)	58,444	(27,234)	-	31,210
Share-based payments	12(b)	-	1,581,369	-	1,581,369
Transaction with owners during the period		2,977,506	1,554,135	-	4,531,641
Loss and comprehensive loss for the period		**-**	**-**	**(4,538,375)**	**(4,538,375)**
Balance at September 30, 2013		**$ 73,398,691**	**$ 9,924,393**	**$ (75,882,128)**	**$ 7,440,956**

NEOVASC INC.

Interim Consolidated Statements of Cash Flows (Unaudited)

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

	Notes	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
OPERATING ACTIVITIES					
Loss for the period		**$ (1,439,826)**	$ (1,206,914)	**$ (4,538,375)**	$ (3,988,560)
Adjustments for:					
Depreciation	15	**89,503**	36,704	**176,829**	97,467
Share-based payments	15	**245,648**	577,458	**1,581,369**	1,876,815
Interest income		**-**	(5,950)	**-**	(27,783)
Interest expense		**2,240**	2,584	**6,951**	8,000
		(1,102,435)	(596,118)	**(2,773,226)**	(2,034,061)
Net change in non-cash working capital items:					
Accounts receivable		**(425,371)**	(234,820)	**(879,689)**	(34,693)
Inventory		**(41,670)**	125,798	**(286,143)**	(93,749)
Prepaid expenses and other assets		**63,032**	496	**(28,276)**	(29,801)
Accounts payable and accrued liabilities		**(65,188)**	256,131	**369,264**	498,967
		(469,197)	147,605	**(824,844)**	340,724
Interest paid and received:					
Interest received		**-**	5,950	**-**	27,783
Interest paid		**(2,240)**	(2,584)	**(6,951)**	(8,000)
		(2,240)	3,366	**(6,951)**	19,783
		(1,573,872)	(445,147)	**(3,605,021)**	(1,673,554)
INVESTING ACTIVITES					
Decrease in investments in guaranteed investment certificates		**-**	1,504,258	**-**	1,504,290
Purchase of property, plant and equipment		**(111,150)**	(39,872)	**(1,004,182)**	(232,313)
		(111,150)	1,464,386	**(1,004,182)**	1,271,977
FINANCING ACTIVITIES					
Decrease in bank overdraft		**(80,110)**	(145,927)	**-**	-
Increase in restricted cash and cash equivalents		**-**	41,040	**-**	40,840
Repayment of long-term debt		**(10,045)**	(9,701)	**(29,904)**	(28,855)
Proceeds from exercise of warrants		**472,187**	-	**2,919,062**	-
Proceeds from exercise of options		**7,498**	100	**31,210**	14,323
		389,530	(114,488)	**2,920,368**	26,308
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(1,295,492)**	904,751	**(1,688,835)**	(375,269)
CASH AND CASH EQUIVALENTS					
Beginning of the period		**5,467,777**	1,124,490	**5,861,120**	2,404,510
End of the period		**$ 4,172,285**	$ 2,029,241	**$ 4,172,285**	$ 2,029,241
Represented by:					
Cash	6	**$ 4,172,285**	$ 519,690	**$ 4,172,285**	$ 519,690
Cashable guaranteed investment certificates		**-**	1,509,551	**-**	1,509,551
		$ 4,172,285	$ 2,029,241	**$ 4,172,285**	$ 2,029,241

See Accompanying Notes to the Interim Consolidated Financial Statements

1. INCORPORATION AND NATURE OF BUSINESS

Neovasc Inc. ("Neovasc" or the "Company") is a limited liability company incorporated and domiciled in Canada. The Company was incorporated as Medical Ventures Corp. under the Company Act (British Columbia) on November 2, 2000 and was continued under the Canada Business Corporations Act on April 19, 2002. On July 1, 2008, the Company changed its name to Neovasc Inc.

Neovasc is the parent company. The consolidated financial statements of the Company as at September 30, 2013 and December 31, 2012 and for the three and nine months ended September 30, 2013 and 2012 comprise the Company and its subsidiaries, all of which are wholly owned. Neovasc's registered office and its principal place of business is Suite 2135, 13700 Mayfield Place, Richmond, British Columbia, Canada, V6V 2E4. The Company's shares are listed on the TSX Venture Exchange.

Neovasc is a specialty medical device company that develops, manufactures and markets products for the rapidly growing cardiovascular marketplace. Its products include the Neovasc Reducer™ for the treatment of refractory angina, the Tiara™ technology in development for the transcatheter treatment of mitral valve disease and a line of advanced biological tissue products that are used as key components in a variety of third-party medical products, such as transcatheter heart valves.

2. BASIS OF PREPARATION

(a) Statement of compliance with IFRS

These interim consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"), using the accounting policies consistent with the Company's annual consolidated financial statements for the year ended December 31, 2012. 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, 2012 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, 2012.

The results for the three and nine months ended September 30, 2013 may not be indicative of the results that may be expected for the full year or any other period.

(b) Basis of measurement

The Company's interim consolidated financial statements have been prepared on the historical cost basis except for accounts receivable measured at amortized cost and inventory measured at net realizable value.

(c) Basis of consolidation

The interim consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries, Neovasc Tiara Inc., Neovasc Medical Inc., Angiometrx Inc., Neovasc Medical Ltd., B-Balloon Ltd. and Neovasc (US) Inc. All intercompany balances and transactions have been eliminated upon consolidation.

(d) Presentation of financial statements

The Company has elected to present the 'Statement of Comprehensive Income' in a single statement.

2. BASIS OF PREPARATION (continued)

(e) Use of estimates and management judgment

The preparation of interim consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of estimates relate to the determination of the net realizable value of inventory (obsolescence provisions), allowance for doubtful accounts receivable, impairment of non-financial assets, useful lives of depreciable assets and expected life, volatility and forfeiture rates for share-based payments.

Inventories
The Company estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

Allowance for doubtful accounts receivable
The Company provides for bad debt by setting aside accounts receivable past due more than 121 days. Actual collectability of customer balances can vary from the Company's estimation.

Impairment of long-lived assets
In assessing impairment, the Company estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Useful lives of depreciable assets
The Company reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utilization of the assets.

Share-based payment
The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and forfeiture rates and making assumptions about them.

(Expressed in Canadian dollars)

3. CHANGES IN ACCOUNTING POLICIES

During the nine months ended September 30, 2013, the Company carried out improvement to leasehold property and depreciated the leasehold improvements using following rates and methods:

Leasehold improvements amortized over the life of the lease

4. MANAGING CAPITAL

The Company's objectives, when managing capital, are to safeguard cash as well as maintain financial liquidity and flexibility in order to preserve its ability to meet financial obligations and deploy capital to grow its business. In the definition of capital, the Company includes equity and long-term debt. There has been no change in the definition since the prior period.

The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to business growth opportunities and changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue new shares, or new debt (secured, unsecured, convertible and/or other types of available debt instruments).

The capital of the Company is comprised of:

	September 30, 2013	December 31, 2012
Equity	**$ 7,440,956**	$ 7,447,690
Long-term debt	**253,719**	283,623
	$ 7,694,675	$ 7,731,313

The Company is subject to certain financial covenants in connection with its long-term debt, including a requirement to limit the amount of total debt in relation to total equity. As at September 30, 2013 and December 31, 2012, the Company was in compliance with all financial covenants associated with its long-term debt.

For the three and nine months ended September 30, 2013 and 2012 there were no changes in the Company's capital management policy.

5. FINANCIAL RISK MANAGEMENT

(a) Foreign exchange risk

The majority of the Company's revenues are derived from product sales in the United States and Europe, primarily denominated in United States and European Union currencies. Management has considered the stability of the foreign currency and the impact a change in the exchange rate may have on future earnings during the forecasting process. United States and European Union currency represents approximately 45% and 43% of the revenue for nine months ended September 30, 2013 (nine months ended September 30, 2012: 66% and 31% respectively). A 5% change in the foreign exchange rates for United States and European Union currencies would result in approximately $190,000 and $180,000 change in revenues for nine months ended September 30, 2013 respectively. A 5% change in the foreign exchange rates for the United States and European Union currencies would result in a change in foreign currency denominated accounts receivable of approximately $17,000 and $45,000 respectively and a change in foreign currency denominated accounts payable of approximately $12,000 and $9,000 respectively.

(b) Interest rate risk

The Company makes fixed repayments on its long-term debt (see Note 11). Included in the repayments is an interest payment with an interest rate floating at prime rate plus 0.5% per annum. Management has considered the risks to cash flows from this variable interest portion and considers it unlikely that the interest rates will increase sufficiently to exceed the fixed monthly payment due on the bank loan. A 1% change in the interest rate on the bank loan will change the interest rate expense for the nine months ended September 30, 2013 by approximately $1,900 (nine months ended September 30, 2012: $2,200) and inversely change the amount of principal repaid by the same amount.

(c) Liquidity risk

As at September 30, 2013 the Company had $4,172,285 in cash and cash equivalents. The cash use in operations during the three and nine months ended September 30, 2013 was $1,573,872 and $3,605,021, respectively.

As at September 30, 2013 the Company had working capital of $5,356,608 as compared to working capital of $6,221,401 at December 31, 2012.

(d) Credit risk

Credit risk arises from the possibility that the entities to which the Company sells products may experience financial difficulty and be unable to fulfill their contractual obligations. This risk is mitigated by proactive credit management policies that include regular monitoring of the debtor's payment history and performance. The Company does not require collateral from its customers as security for trade accounts receivable but may require certain customers to pay in advance of any work being performed or product being shipped. The maximum exposure, if all of the Company's customers were to default at the same time is the full carrying value of the trade accounts receivable at September 30, 2013: $1,684,245 (December 31, 2012: $844,850).

As at September 30, 2013, the Company had $216,150 (December 31, 2012: $8,706) of trade accounts receivable that were overdue, according to the customers' credit terms. Of these the Company has provided for $nil of trade accounts receivable which management believes may be impaired (December 31, 2012: $nil). During the three and nine months ended September 30, 2013 the Company wrote down $16,252 of accounts receivable owed by customers (three and nine months ended September 30, 2012: $nil).

(Expressed in Canadian dollars)

6. CASH AND CASH EQUIVALENTS

	September 30, 2013	December 31, 2012
Canadian dollars	**$ 3,608,184**	$ 293,409
United States dollars	**221,221**	5,287,649
European euros	**342,880**	280,062
	$ 4,172,285	$ 5,861,120

7. ACCOUNTS RECEIVABLE

	September 30, 2013	December 31, 2012
Trade receivables	**$ 1,684,245**	$ 844,850
Allowance for doubtful accounts	**-**	-
Net trade receivables	**1,684,245**	844,850
Receivable from LeMaitre Vascular, Inc.	**344,862**	344,862
Other receivables	**98,853**	58,559
	$ 2,127,960	$ 1,248,271

At September 30, 2013, the Receivable from LeMaitre Vascular Inc. (“LeMaitre”) represents amounts due on October 31, 2013, one year after from the sale of a license to LeMaitre. All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value. The aging analysis of receivables is as follows:

	September 30, 2013	December 31, 2012
Not past due	**$ 1,468,095**	$ 836,144
Past due 0 - 30 days	**216,150**	-
Past due 31 - 60 days	**-**	8,706
	$ 1,684,245	$ 844,850

All of the receivables are pledged as security for the long-term debt of the Company (see Note 11). All of the receivables have been reviewed for impairment. No impairment was found. The movement in the allowance for doubtful accounts is as follows:

	September 30, 2013	December 31, 2012
Balance, start of the period	**$ -**	$ 3,868
Amounts recorded during period	**-**	(3,868)
	$ -	$ -

8. INVENTORY

	September 30, 2013	December 31, 2012
Raw materials	**$ 216,041**	$ 95,061
Work in progress	**218,501**	49,567
Finished goods	**43,543**	47,314
	$ 478,085	$ 191,942

During the three and nine months ended September 30, 2013 $937,276 and $2,613,741 (three and nine months ended September 30, 2012: $881,787 and $2,202,479) of inventory was expensed in cost of goods sold, and $205,773 and $396,427 (three and nine months ended September 30, 2012: $45,021 and 138,230) of inventory was used in internal development projects and expensed in product development and clinical trial expenses. All the inventories are pledged as security for the long-term debt of the Company (see Note 11).