



Neovasc Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**FOR THE THREE MONTHS ENDED
MARCH 31, 2014 AND 2013**

(Expressed in Canadian dollars)

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NEOVASC INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(Expressed in Canadian dollars)

	Notes	March 31, 2014	December 31, 2013
ASSETS			
Current assets			
Cash and cash equivalents	6	\$ 17,223,089	\$ 3,403,472
Investments	7	9,999,999	-
Accounts receivable	8	1,734,180	1,289,933
Inventory	9	1,014,092	484,811
Prepaid expenses and other assets		41,960	28,266
Total current assets		30,013,320	5,206,482
Non-current assets			
Property, plant and equipment	10	2,224,102	2,236,900
Total non-current assets		2,224,102	2,236,900
Total assets		\$ 32,237,422	\$ 7,443,382
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	11	\$ 1,686,681	\$ 1,577,158
Customer deposits	12	240,986	-
Current portion of long-term debt	13	43,828	43,548
Total current liabilities		1,971,495	1,620,706
Non-current liabilities			
Long-term debt	13	189,537	200,084
Total non-current liabilities		189,537	200,084
Total liabilities		2,161,032	1,820,790
Equity			
Share capital	14	98,356,816	73,411,391
Contributed surplus	14	10,193,649	10,305,204
Deficit		(78,474,075)	(78,094,003)
Total equity		30,076,390	5,622,592
Total liabilities and equity		\$ 32,237,422	\$ 7,443,382

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Condensed Interim Consolidated Statements of Comprehensive Loss (Unaudited)

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

	Notes	2014	2013
REVENUE			
Product sales		\$ 694,998	\$ 590,045
Contract manufacturing		185,716	575,149
Consulting services		2,955,421	844,186
	15	<u>3,836,135</u>	<u>2,009,380</u>
COST OF GOODS SOLD	17	<u>1,914,522</u>	<u>1,235,281</u>
GROSS PROFIT		<u>1,921,613</u>	<u>774,099</u>
EXPENSES			
Selling expenses	17	19,915	21,007
General and administrative expenses	17	1,096,454	1,725,732
Product development and clinical trials expenses	17	1,233,202	988,571
		<u>2,349,571</u>	<u>2,735,310</u>
OPERATING LOSS		<u>(427,958)</u>	<u>(1,961,211)</u>
OTHER INCOME/(EXPENSE)			
Interest income		4,872	-
Interest expense		(2,017)	(2,360)
Gain on foreign exchange		45,031	103,415
		<u>47,886</u>	<u>101,055</u>
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		<u>\$ (380,072)</u>	<u>\$ (1,860,156)</u>
LOSS PER SHARE			
Basic and diluted loss per share	19	\$ (0.01)	\$ (0.04)

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.**Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)**

(Expressed in Canadian dollars)

	Notes	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at January 1, 2013		\$ 70,421,185	\$ 8,370,258	\$ (71,343,753)	\$ 7,447,690
Issue of share capital on exercise of warrants		53,125	-	-	53,125
Issue of share capital on exercise of options		46,075	(22,363)	-	23,712
Share-based payments		-	1,036,467	-	1,036,467
Transaction with owners during the period		99,200	1,014,104	-	1,113,304
Loss and comprehensive loss for the period		-	-	(1,860,156)	(1,860,156)
Balance at March 31, 2013		\$ 70,520,385	\$ 9,384,362	\$ (73,203,909)	\$ 6,700,838
Balance at January 1, 2014		\$ 73,411,391	\$ 10,305,204	\$ (78,094,003)	\$ 5,622,592
Issue of share capital pursuant a bought deal prospectus offering	14(b)	25,152,000	-	-	25,152,000
Share issue costs	14(b)	(506,651)	-	-	(506,651)
Issue of share capital on exercise of options	14(b)	300,076	(276,516)	-	23,560
Share-based payments	14(b)	-	164,961	-	164,961
Transaction with owners during the period		24,945,425	(111,555)	-	24,833,870
Loss and comprehensive loss for the period		-	-	(380,072)	(380,072)
Balance at March 31, 2014		\$ 98,356,816	\$ 10,193,649	\$ (78,474,075)	\$ 30,076,390

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

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

	Notes	2014	2013
OPERATING ACTIVITIES			
Loss for the period		\$ (380,072)	\$ (1,860,156)
Adjustments for:			
Depreciation	17	78,660	35,996
Share-based payments	17	164,961	1,036,467
Interest income		(4,872)	-
Interest expense		2,017	2,360
		<u>(139,306)</u>	<u>(785,333)</u>
Net change in non-cash working capital items:			
Accounts receivable		(441,523)	8,118
Inventory		(529,281)	(257,457)
Prepaid expenses and other assets		(13,694)	(43,171)
Accounts payable and accrued liabilities		109,523	199,312
Customer deposits		240,986	-
		<u>(633,989)</u>	<u>(93,198)</u>
Interest paid and received:			
Interest received		2,148	-
Interest paid		(2,017)	(2,360)
		<u>131</u>	<u>(2,360)</u>
		<u>(773,164)</u>	<u>(880,891)</u>
INVESTING ACTIVITIES			
Investment in guaranteed investment certificates	7	(9,999,999)	-
Purchase of property, plant and equipment	10	(65,862)	(314,635)
		<u>(10,065,861)</u>	<u>(314,635)</u>
FINANCING ACTIVITIES			
Decrease in restricted cash & cash equivalents		-	127,098
Repayment of long-term debt		(10,267)	(9,925)
Proceeds from share issue, net of share issue costs of \$506,651	14	24,645,349	-
Proceeds from exercise of warrants	14	-	53,125
Proceeds from exercise of options	14	23,560	23,712
		<u>24,658,642</u>	<u>194,010</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS		13,819,617	(1,001,516)
CASH AND CASH EQUIVALENTS			
Beginning of the period		3,403,472	5,861,120
End of the period		<u>\$ 17,223,089</u>	<u>\$ 4,859,604</u>
Represented by:			
Cash		2,722,473	4,859,604
Cashable high interest savings accounts		4,500,616	-
Cashable guaranteed investment certificates		10,000,000	-
	6	<u>\$ 17,223,089</u>	<u>\$ 4,859,604</u>

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2014 and 2013

(Expressed in Canadian dollars)

1. INCORPORATION AND NATURE OF BUSINESS

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

Neovasc is the parent company. The consolidated financial statements of the Company as at March 31, 2014 and December 31, 2013 and for the three months ended March 31, 2014 and 2013 comprise the Company and its subsidiaries, all of which are wholly owned. The Company's principal place of business is located at Suite 2135 – 13700 Mayfield Place, Richmond, British Columbia, V6V 2EY 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 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 Tiara™ technology in development for the transcatheter treatment of mitral valve disease, the Neovasc Reducer™ for the treatment of refractory angina and a line of advanced biological tissue products called Peripatch™ that are used as key components in third-party medical products including transcatheter heart valves.

2. BASIS OF PREPARATION

(a) Statement of compliance with IFRS

These interim consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"), using the accounting policies consistent with the Company's annual consolidated financial statements for the year ended December 31, 2013. 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, 2013 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, 2013.

The results for the three months ended March 31, 2014 may not be indicative of the results that may be expected for the full year or any other period.

(b) Basis of consolidation

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

(c) Presentation of financial statements

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

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2014 and 2013

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

(d) Use of estimates and management judgment

The preparation of 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 debts by setting aside accounts receivable past due more than 121 days or sooner if management determines that certain accounts receivable may be uncollectible. 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.

3. CHANGES IN ACCOUNTING POLICIES

During the three months ended March 31, 2014, there have been no changes in accounting policies.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2014 and 2013

(Expressed in Canadian dollars)

4. MANAGING CAPITAL

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

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

The capital of the Company is comprised of:

	March 31, 2014	December 31, 2013
Equity	\$ 30,076,390	\$ 5,622,592
Long-term debt	233,365	243,632
	\$ 30,309,755	\$ 5,866,224

The Company is subject to certain financial covenants in connection with its long-term debt, including a requirement to limit the amount of total debt in relation to total equity by a ratio of less than or equal to 1:1. As at March 31, 2014 and December 31, 2013, the Company was in compliance with all financial covenants associated with its long-term debt.

For the three months ended March 31, 2014 and year ended December 31, 2013, there were no changes in the Company's capital management policy.

5. FINANCIAL RISK MANAGEMENT

Categories of financial assets and financial liabilities

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

	Note	March 31, 2014	December 31, 2013
Financial assets			
		Loans and receivables	
Cash and cash equivalents	6	\$ 17,223,089	\$ 3,403,473
Investments	7	9,999,999	-
Accounts receivable	8	1,734,180	1,289,933
		\$ 28,957,268	\$ 4,693,405
Financial liabilities			
		Other liabilities	
Accounts payable and accrued liabilities	11	\$ 1,686,681	\$ 1,577,158
Customer deposit	12	240,986	-
Long-term debt	13	233,365	243,632
		\$ 2,161,032	\$ 1,820,790

The estimated fair value of the long-term debt is \$213,497 and has been estimated using a present value technique by discounting cash flows using interest rate of 3.5%, and is considered a level 2 fair value measurement.

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and customer deposit is considered a reasonable approximation of fair value.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2014 and 2013

(Expressed in Canadian dollars)

5. FINANCIAL RISK MANAGEMENT (continued)

(a) Foreign exchange risk

The majority of the Company's revenues are derived from product sales in the United States and Europe, primarily denominated in United States and European Union currencies. Management has considered the stability of the foreign currency and the impact a change in the exchange rate may have on future earnings during the forecasting process. United States and European Union currency represents approximately 37% and 63% of the revenue for three months ended March 31, 2014 (three months ended March 31, 2013: 59% and 30% respectively). A 5% change in the foreign exchange rates for United States and European Union currencies will result in a change in revenues of approximately \$71,600 and \$120,200 respectively for the three months ended March 31, 2014 (three months ended March 31, 2013: \$59,000 and \$30,000 respectively). A 5% change in the foreign exchange rates for the United States and European Union currencies for foreign currency denominated accounts receivable will impact net income by approximately \$17,000 and \$66,000 respectively (December 31, 2013: \$18,000 and \$44,000 respectively), and a similar change for foreign currency denominated accounts payable will impact net income by approximately \$22,600 and \$1,200 respectively as at March 31, 2014 (December 31, 2013: \$17,000 and \$22,000 respectively). The Company does not hedge its foreign exchange risk.

(b) Interest rate risk

The Company makes fixed repayments on its long-term debt (see Note 13). Included in the repayments is an interest payment with an interest rate floating at prime rate plus 0.500% per annum. Management has considered the risks to cash flows from this variable interest portion and considers it unlikely that the interest rates will increase sufficiently to exceed the fixed monthly payment due on the bank loan. A 1% change in the interest rate on the bank loan will impact net income for the three months ended March 31, 2014 by approximately \$580 (three months ended March 31, 2013: \$780) and inversely change the amount of principal repaid by the same amount.

The Company receives interest on its cash in the bank at an interest rate of 0.25%. A 1% change in the interest rate on the cash in the bank will impact net income for the three months ended March 31, 2014 by approximately \$880 (three months ended March 31, 2013: \$nil).

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

(c) Liquidity risk

As at March 31, 2014, the Company had \$17,223,089 cash. The cash used in operations during the three months ended March 31, 2014 was \$773,164.

As at March 31, 2014, the Company had working capital of \$28,041,825 as compared to working capital of \$3,585,776 at December 31, 2013.

The Company monitors its cash flow on the monthly basis and compares actual performance to the budget for the fiscal year. The Company believes it has sufficient funds for the next 12 months but further into the future the Company is dependent on the profitable commercialization of its products or obtaining additional debt or equity financing to fund ongoing operations until profitability is achieved.

As at March 31, 2014 and December 31, 2013, the Company's non-derivative financial liabilities have maturities (including interest payments where applicable) as summarized below:

	Current		Non-current	
	Within 6 months	6 to 12 months	1 to 5 years	later than 5 years
March 31, 2014				
Accounts payable and accrued liabilities	\$ 1,686,681	\$ -	\$ -	\$ -
Customer deposits	240,986	-	-	-
Long-term debt	21,680	22,148	187,079	2,458
	<u>\$ 1,949,347</u>	<u>\$ 22,148</u>	<u>\$ 187,079</u>	<u>\$ 2,458</u>
December 31, 2013				
Accounts payable and accrued liabilities	\$ 1,577,158	\$ -	\$ -	\$ -
Long-term debt	21,525	22,023	186,021	14,063
	<u>\$ 1,598,683</u>	<u>\$ 22,023</u>	<u>\$ 186,021</u>	<u>\$ 14,063</u>

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2014 and 2013

(Expressed in Canadian dollars)

5. FINANCIAL RISK MANAGEMENT (continued)

(d) Credit risk

Credit risk arises from the possibility that the entities to which the Company sells products may experience financial difficulty and be unable to fulfill their contractual obligations. This risk is mitigated by proactive credit management policies that include regular monitoring of the 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 March 31, 2014: \$1,659,890 (December 31, 2013: \$1,237,996).

As at March 31, 2014, the Company had \$nil (December 31, 2013: \$29,354) of trade accounts receivable that was overdue, according to the customers' credit terms. During the three months ended March 31, 2014 and 2013 the Company did not write down any accounts receivable owed by customers.

The Company may also have credit risk related to its cash and cash equivalents with a maximum exposure of \$17,223,089 (December 31, 2013: \$3,403,472). The Company minimizes its risk to cash and cash equivalents by dealing with Canadian chartered banks.

6. CASH AND CASH EQUIVALENTS

	March 31, 2014	December 31, 2013
Canadian dollars	\$ 1,415,266	\$ 2,481,367
United States dollars	401,019	288,201
European euros	906,188	633,904
Deposits held in High Interest Savings Accounts ("HISAs")	4,500,616	-
Deposits held as Guaranteed Investments Certificates ("GICs")	10,000,000	-
	<u>\$ 17,223,089</u>	<u>\$ 3,403,472</u>

The HISAs and GICs are issued by major Canadian Chartered Banks. The HISAs are fully cashable at any time and have a variable interest rate. The GICs are non-cashable, have a 90-day term, mature on June 25, 2014 and have a fixed interest of 1.15% per annum.

7. INVESTMENTS

	March 31, 2014	December 31, 2013
Deposits held as GICs	9,999,999	-
	<u>\$ 9,999,999</u>	<u>\$ -</u>

The GICs issued by major Canadian Chartered Banks are non-cashable, have a 180 day and 1 year term, respectively. Of these GICs, \$5,000,000 will mature on September 23, 2014, and have a fixed interest rate of 1.20% per annum, and \$4,999,999 will mature on March 27, 2015, and have a fixed interest rate of 1.47% per annum.

8. ACCOUNTS RECEIVABLE

	March 31, 2014	December 31, 2013
Net trade receivables	\$ 1,659,890	\$ 1,237,996
Accrued interest on GICs	2,724	-
Other receivables	71,566	51,937
	<u>\$ 1,734,180</u>	<u>\$ 1,289,933</u>

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

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2014 and 2013

(Expressed in Canadian dollars)

8. ACCOUNTS RECEIVABLE (continued)

The aging analysis of receivables is as follows:

	March 31, 2014	December 31, 2013
Not past due	\$ 1,659,890	\$ 1,208,642
Past due 0 - 30 days	-	29,354
	\$ 1,659,890	\$ 1,237,996

All of the Company's trade and other receivables have been reviewed for impairment. No impairment was found. There was not allowance for doubtful accounts at March 31, 2014 or December 31, 2013 and there was no movement in the allowance for doubtful accounts in either period.

All accounts receivable are pledged as security for the long-term debt of the Company (see Note 13).

9. INVENTORY

	March 31, 2014	December 31, 2013
Raw materials	\$ 373,189	\$ 140,983
Work in progress	607,795	304,241
Finished goods	33,108	39,587
	\$ 1,014,092	\$ 484,811

During the three months ended March 31, 2014 \$843,227 (three months ended March 31, 2013: \$793,390) of inventory was expensed in cost of goods sold, and \$278,110 (three months ended March 31, 2013: \$78,443) 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 13).

During the three months ended March 31, 2014 and year ended December, 31, 2013 the Company did not write down any obsolete inventory.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2014 and 2013

(Expressed in Canadian dollars)

10. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Leasehold Improvements	Production equipment	Computer hardware	Computer software	Office equipment	Total
COST								
Balance at January 1, 2013	\$ 207,347	\$ 1,299,642	\$ -	\$ 678,361	\$ 217,111	\$ 271,664	\$ 170,133	\$ 2,844,258
Additions	-	327,363	76,958	448,295	101,279	37,013	50,280	1,041,188
Balance at December 31, 2013	\$ 207,347	\$ 1,627,005	\$ 76,958	\$ 1,126,656	\$ 318,390	\$ 308,677	\$ 220,413	\$ 3,885,446
Additions	-	-	-	7,709	51,350	-	6,803	65,862
Balance at March 31, 2014	\$ 207,347	\$ 1,627,005	\$ 76,958	\$ 1,134,365	\$ 369,740	\$ 308,677	\$ 227,216	\$ 3,951,308
ACCUMULATED DEPRECIATION								
Balance at January 1, 2013	\$ -	\$ 301,053	\$ -	\$ 509,550	\$ 161,221	\$ 265,625	\$ 139,437	\$ 1,376,886
Depreciation for the year	-	45,835	31,107	115,024	34,393	33,023	12,278	271,660
Balance at December 31, 2013	\$ -	\$ 346,888	\$ 31,107	\$ 624,574	\$ 195,614	\$ 298,648	\$ 151,715	\$ 1,648,546
Depreciation for the period	-	12,801	11,593	38,042	10,282	2,507	3,435	78,660
Balance at March 31, 2014	\$ -	\$ 359,689	\$ 42,700	\$ 662,616	\$ 205,896	\$ 301,155	\$ 155,150	\$ 1,727,206
CARRYING AMOUNTS								
At December 31, 2013	\$ 207,347	\$ 1,280,117	\$ 45,851	\$ 502,082	\$ 122,776	\$ 10,029	\$ 68,698	\$ 2,236,900
At March 31, 2014	\$ 207,347	\$ 1,267,316	\$ 34,258	\$ 471,749	\$ 163,844	\$ 7,522	\$ 72,066	\$ 2,224,102

All property, plant and equipment are pledged as security for the long-term debt of the Company (see Note 13).

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2014 and 2013

(Expressed in Canadian dollars)

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2014	December 31, 2013
Trade payables	\$ 1,123,789	\$ 1,218,890
Accrued vacation	391,966	248,334
Accrued liabilities	143,891	84,130
Other payables	27,035	25,804
	<u>\$ 1,686,681</u>	<u>\$ 1,577,158</u>

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

12. CUSTOMER DEPOSITS

As at March 31, 2014, the Company has received an advanced payment from a customer in the amount of \$240,986. This payment will be applied to invoices generated as the revenue is recognized.

13. LONG-TERM DEBT

	March 31, 2014	December 31, 2013
Bank installment loan	\$ 233,365	\$ 243,632
Less current portion	(43,828)	(43,548)
	<u>\$ 189,537</u>	<u>\$ 200,084</u>

Repayments consist of 180 regular blended payments of \$4,095 each month, including interest and principal, commencing on September 1, 2007 and ending on or before August 1, 2022. The loan agreement as amended on September 27, 2013, is collateralized by a first charge over the Company's land and buildings and a general security agreement over all personal property of the business now owned and all personal property acquired in the future. The loan bears interest at prime plus 0.500% per annum.

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

	March 31, 2014	December 31, 2013
Year 1	\$ 43,828	\$ 43,548
Year 2	45,101	44,846
Year 3	46,196	45,935
Year 4	47,317	47,049
Year 5	48,465	48,191
Thereafter	2,458	14,063
	<u>\$ 233,365</u>	<u>\$ 243,632</u>

More information about the Company's exposure to interest rate and liquidity risk is given in Notes 5(b) and 5(c).

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2014 and 2013

(Expressed in Canadian dollars)

14. SHARE CAPITAL

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

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

(a) Authorized

Unlimited number of common shares without par value.

Unlimited number of preferred shares without par value.

(b) Issued and outstanding

	Common Shares		Contributed
	Number	Amount	Surplus
Balance, January 1, 2013	45,827,040	\$ 70,421,185	\$ 8,370,258
Issued for cash on exercise of warrants (i)	2,335,250	2,919,062	-
Issued for cash on exercise of options	52,790	71,144	(28,434)
Share-based payments	-	-	1,963,380
Balance, December 31, 2013	48,215,080	\$ 73,411,391	\$ 10,305,204
Issued for cash pursuant to bought deal prospectus offering (ii)	4,192,000	25,152,000	-
Share issue costs (ii)	-	(506,651)	-
Issued for cash on exercise of options	172,222	300,076	(276,516)
Share-based payments	-	-	164,961
Balance, March 31, 2014	52,579,302	\$ 98,356,816	\$ 10,193,649

(i) In 2013 the Company issued 2,335,250 common shares, upon the exercise of warrants issued as part of the Company's August 2011 financing. Proceeds received from the exercise of the 2,335,250 warrants amounted to \$2,919,062.

(ii) On March 26, 2014, the Company closed a bought deal equity financing underwritten by Cormark Securities Inc., which placed 4,192,000 common shares of Neovasc at a price of \$6.00 per common share, for gross cash proceeds to the Company of \$25,152,000. The share issue cost was \$506,651.

NEOVASC INC.

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14. SHARE CAPITAL (continued)

(c) Stock options

The Company adopted an equity-settled stock option plan under which the directors of the Company may grant options to purchase common shares to directors, officers, employees and service providers (the "optionees") of the Company on terms that the directors of the Company may determine within the limitations set forth in the stock option plan. Effective June 18, 2013, 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 9,171,596, representing approximately 20% of the number of common shares of the Company outstanding on February 18, 2013.

Options under the Company's stock option plan granted to directors, officers and employees vest immediately on the grant date, unless a vesting schedule is specified by the board. The directors of the Company have discretion within the limitations set forth in the stock option plan to determine other vesting terms on options granted to directors, officers, employees and others. The minimum exercise price of a stock option cannot be less than the applicable market price of the common shares on the date of the grant and the options have a maximum life of ten years from the date of grant. The Company also assumed options from the acquisition of Neovasc Medical Ltd. and B-Balloon Ltd which are not the part of the Company's stock option plan. The following table summarizes stock option activity for the respective periods as follows:

	Number of options	Weighted average exercise price	Average remaining contractual life (years)
Options outstanding, January 1, 2013	7,767,787	\$ 0.85	2.91
Granted	1,084,006	2.43	
Exercised	(52,790)	0.81	
Forfeited	(3,348)	1.63	
Expired	(10,735)	0.01	
Options outstanding, December 31, 2013	8,784,920	\$ 1.04	2.20
Exercised	(172,222)	0.13	
Forfeited	(2,000)	2.49	
Options outstanding, March 31, 2014	8,610,698	\$ 1.06	1.97
Options exercisable, March 31, 2014	7,754,556	\$ 0.99	1.84

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

Exercise price	Options outstanding	Weighted average remaining term (yrs)	Options exercisable	Weighted average remaining term (yrs)
\$ 0.01	387,867	2.79	387,867	2.79
\$ 0.20-0.40	2,271,725	0.78	2,271,725	0.78
\$ 0.97-1.60	4,871,100	2.04	4,407,313	1.80
\$ 2.00-4.25	1,080,006	4.03	687,651	3.95
	8,610,698		7,754,556	

NEOVASC INC.

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(Expressed in Canadian dollars)

14. SHARE CAPITAL (continued)

(c) Stock options (continued)

The weighted average share price at the date of exercise for share options exercised for the three months ended March 31, 2014 was \$0.13 (three months ended March 31, 2013: \$0.68). During the three months ended March 31, 2014, the Company recorded \$164,961 as compensation expense for share-based compensation awarded to eligible optionees (three months ended March 31, 2013: \$1,036,467). 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:

	December 31, 2013
Weighted average fair value	\$ 2.26
Dividend yield	nil
Volatility	140%
Risk-free interest rate	1.25%
Expected life	5 years
Estimated Forfeiture rate	0%

There have been no grants of options during the three months ended March 31, 2014.

(d) Warrants

	<u>Number of warrants</u>
Balance, January 1, 2013	2,335,250
Exercised (i)	(2,335,250)
Balance, December 31, 2013 and March 31, 2014	-

(i) In 2013 the Company issued 2,335,250 common shares upon the exercise of warrants issued as part of the Company's August 2011 financing (see Note 14(b)(ii)). Proceeds received from the exercise of the 2,335,250 warrants amounted to \$2,919,062.

There were no performance conditions attached to the warrants and all the warrants vested upon issuance.

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,	
	<u>2014</u>	<u>2013</u>
REVENUE		
United States	\$ 921,683	\$ 952,609
Europe	2,817,596	1,048,075
Israel	96,856	8,696
	<u>\$ 3,836,135</u>	<u>\$ 2,009,380</u>

Sales to the Company's four largest customers accounted for approximately 36%, 20%, 17%, and 13% of the Company's sales for the three months ended March 31, 2014. Comparatively, sales to the Company's five largest customers accounted for approximately 29%, 27%, 16%, 14% and 13% of the Company's sales for the three months ended March 31, 2013.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

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16. EMPLOYEE BENEFITS EXPENSE

	For the three months ended March 31,	
	2014	2013
Salaries and wages	\$ 1,546,376	\$ 1,006,293
Canadian pension plan and employment insurance	97,786	66,263
Contribution to defined contribution pension plan	27,657	21,394
Cash-based employee expenses	1,671,819	1,093,950
Share-based payments	164,961	1,036,467
	\$ 1,836,780	\$ 2,130,417

17. DEPRECIATION AND SHARE-BASED PAYMENTS

	For the three months ended March 31,	
	2014	2013
COST OF GOODS SOLD		
Depreciation	\$ 26,859	\$ 4,985
Share-based payments	32,702	50,886
Cash-based employee expenses	783,181	455,721
Other costs	1,071,780	723,689
TOTAL COST OF GOODS SOLD	\$ 1,914,522	\$ 1,235,281

EXPENSES

Selling expenses

Depreciation	\$ 96	\$ 137
Share-based payments	1,230	2,396
Cash-based employee expenses	17,495	16,430
Other expenses	1,094	2,044
	19,915	21,007

General and administrative expenses

Depreciation	21,828	14,808
Share-based payments	54,219	878,816
Cash-based employee expenses	446,276	305,531
Other expenses	574,131	526,577
	1,096,454	1,725,732

Product development and clinical trials expenses

Depreciation	29,877	16,066
Share-based payments	76,810	104,369
Cash-based employee expenses	424,867	316,268
Other expenses	701,648	551,868
	1,233,202	988,571

TOTAL EXPENSES

	\$ 2,349,571	\$ 2,735,310
Depreciation per Statements of Cash Flows	\$ 78,660	\$ 35,996
Share-based payments per Statements of Cash Flows	\$ 164,961	\$ 1,036,467
Cash-based employee expenses (see Note 16)	\$ 1,671,819	\$ 1,093,950

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2014 and 2013

(Expressed in Canadian dollars)

18. OPERATING LEASES

The Company entered into an agreement for additional office space in October 2013. The agreement does not contain any contingent rent clauses, renewal or purchase options or escalation clauses. The term of the lease is 24 months commenced from October 1, 2012.

The Company entered into another agreement for additional office space in August 2013. The agreement does not contain any contingent rent clauses, renewal or purchase options or escalation clauses. The term of the lease is 24 months commencing on August 1, 2013.

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

	As at March 31,	
	2014	2013
Year 1	\$ 21,130	\$ 10,674
Year 2	3,600	20,660
	<u>\$ 24,730</u>	<u>\$ 31,334</u>

Lease payments recognized as an expense during the three months ended March 31, 2014 amount to \$11,270 (three months ended March 31, 2013: \$5,165).

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, 2014 amounted to 48,559,469 shares (three months ended March 31, 2013: 45,866,499 shares).

	For the three months ended March 31,	
	2014	2013
Weighted average number of common shares	48,559,469	45,866,499
Loss for the period	(380,072)	(1,860,156)
Basic loss per share	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>

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

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

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(Expressed in Canadian dollars)

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,	
	2014	2013
Short-term employee benefits		
Employee salaries and bonuses	\$ 228,710	\$ 196,813
Directors fees	33,159	15,234
Social security and medical care costs	12,762	12,569
	<u>274,631</u>	<u>224,616</u>
Post-employment benefits		
Contributions to defined contribution pension plan	7,536	7,223
	<u>7,536</u>	<u>7,223</u>
Share-based payments	1,111	795,954
	<u>1,111</u>	<u>795,954</u>
Total key management remuneration	<u>\$ 283,278</u>	<u>\$ 1,027,793</u>

21. SUBSEQUENT EVENTS

On April 16, 2014, the Company approved amendments to the Company's stock option plan that, among other matters, increased the number of options exercisable into common shares available for grant by 1,344,264. These amendments remain subject to the approval of Neovasc shareholders at the next annual general meeting, as well as to the approval of the TSX Venture Exchange.

Also on April 16, 2014 Neovasc granted a total of 1,670,000 stock options (the "Options") to Neovasc directors, management and staff. The Options have an exercise price of \$6.50, the equivalent to Neovasc's closing market price of \$6.50 on the date of the grant. The Options will vest as follows: (i) 350,000 immediately on the date of the grant; (ii) 1,100,000 on December 31, 2014, contingent upon management achieving certain performance milestones established by the board of directors; and (iii) 220,000 of which 20% vest immediately and 20% will vest on each of the next four anniversaries of the date of grant. Of the 1,670,000 newly granted Options, 1,100,000 have been drawn from the increased option pool created as a result of the new stock option plan amendments and as such, remain subject to Neovasc receiving shareholder and TSX Venture Exchange approval prior to their exercise.

22. AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the three months ended March 31, 2014 (including comparatives) were approved by the board of directors on May 21, 2014.

Signed Alexei Marko

Alexei Marko, Director

Signed Steve Rubin

Steve Rubin, Director