



Neovasc Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2015 AND 2014**

(Expressed in Canadian dollars)

CONTENTS

	<u>Page</u>
Condensed Interim Consolidated Statements of Financial Position	1
Condensed Interim Consolidated Statements of Comprehensive Loss	2
Condensed Interim Consolidated Statements of Changes in Equity	3
Condensed Interim Consolidated Statements of Cash Flows	4
Notes to the Condensed Interim Consolidated Financial Statements	5 – 17

NEOVASC INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(Expressed in Canadian dollars)

	Notes	September 30, 2015	December 31, 2014 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents	6	\$ 84,099,496	\$ 6,025,013
Investments	7	-	11,999,999
Accounts receivable	8	2,124,767	1,790,971
Inventory	9	818,292	475,975
Prepaid expenses and other assets		275,052	259,261
Total current assets		87,317,607	20,551,219
Non-current assets			
Property, plant and equipment	10	4,826,032	3,078,041
Total non-current assets		4,826,032	3,078,041
Total assets		\$ 92,143,639	\$ 23,629,260
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	11	\$ 3,479,781	\$ 2,513,072
Current portion of long-term debt	12	-	44,591
Total current liabilities		3,479,781	2,557,663
Non-current liabilities			
Long-term debt	12	-	157,628
Total non-current liabilities		-	157,628
Total liabilities		3,479,781	2,715,291
Equity			
Share capital	13	188,656,937	99,169,635
Contributed surplus	13	21,614,341	18,899,435
Deficit		(121,607,420)	(97,155,101)
Total equity		88,663,858	20,913,969
Total liabilities and equity		\$ 92,143,639	\$ 23,629,260

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Condensed Interim Consolidated Statements of Comprehensive Loss (Unaudited)

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

	Three months ended September 30,		Nine months ended September 30,	
Notes	2015	2014	2015	2014
REVENUE				
Reducer	\$ 208,631	\$ -	\$ 424,299	\$ -
Product sales	13,387	471,468	438,360	1,965,387
Contract manufacturing	965,099	1,366,552	2,860,112	2,273,493
Consulting services	2,050,693	2,431,340	5,975,519	8,271,130
14	3,237,810	4,269,360	9,698,290	12,510,010
COST OF GOODS SOLD				
16	2,058,989	2,468,747	6,286,597	7,450,193
GROSS PROFIT				
	1,178,821	1,800,613	3,411,693	5,059,817
EXPENSES				
Selling expenses	16 149,101	19,285	457,086	63,613
General and administrative expenses	16 5,959,380	2,916,141	13,193,866	8,656,982
Product development and clinical trials expenses	16 6,425,068	3,488,051	15,947,486	7,834,960
	12,533,549	6,423,477	29,598,438	16,555,555
OPERATING LOSS				
	(11,354,728)	(4,622,864)	(26,186,745)	(11,495,738)
OTHER INCOME/(EXPENSE)				
Interest income	198,403	77,897	590,944	153,835
Interest expense	-	(1,883)	(2,960)	(5,895)
Loss on disposal of property, plant and equipment	-	(32,022)	-	(32,022)
Gain/(loss) on foreign exchange	1,165,265	(9,673)	1,146,442	(60,708)
	1,363,668	34,319	1,734,426	55,210
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD				
	\$ (9,991,060)	\$ (4,588,545)	\$ (24,452,319)	\$ (11,440,528)
LOSS PER SHARE				
Basic and diluted loss per share	18 \$ (0.15)	\$ (0.09)	\$ (0.38)	\$ (0.22)

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

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

(Expressed in Canadian dollars)

	Notes	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at January 1, 2014		\$ 73,411,391	\$ 10,305,204	\$ (78,094,003)	\$ 5,622,592
Issue of share capital pursuant to a bought deal prospectus offering	13(b)(i)	25,152,000	-	-	25,152,000
Share issue costs	13(b)(i)	(506,651)	-	-	(506,651)
Issue of share capital on exercise of options		917,393	(754,009)	-	163,384
Share-based payments		-	6,616,335	-	6,616,335
Transaction with owners during the period		25,562,742	5,862,326	-	31,425,068
Loss and comprehensive loss for the period		-	-	(11,440,528)	(11,440,528)
Balance at September 30, 2014		\$ 98,974,133	\$ 16,167,530	\$ (89,534,531)	\$ 25,607,132
Balance at January 1, 2015		\$ 99,169,635	\$ 18,899,435	\$ (97,155,101)	\$ 20,913,969
Issue of share capital pursuant to an underwritten public offering	13(b)(iii)	93,320,254	-	-	93,320,254
Share issue costs	13(b)(iii)	(6,236,783)	-	-	(6,236,783)
Issue of share capital on exercise of options	13(b)	2,403,831	(1,300,657)	-	1,103,174
Share-based payments	13(b)	-	4,015,563	-	4,015,563
Transaction with owners during the period		89,487,302	2,714,906	-	92,202,208
Loss and comprehensive loss for the period		-	-	(24,452,319)	(24,452,319)
Balance at September 30, 2015		\$ 188,656,937	\$ 21,614,341	\$ (121,607,420)	\$ 88,663,858

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Condensed 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,		Nine months ended September 30,	
	2015	2014	2015	2014
OPERATING ACTIVITIES				
Loss for the year	\$ (9,991,060)	\$ (4,588,545)	\$ (24,452,319)	\$ (11,440,528)
Adjustments for:				
Depreciation	16 174,289	96,638	426,664	261,271
Share-based payments	16 1,148,474	2,385,694	4,015,563	6,616,335
Loss on disposal of property and equipment	-	32,022	-	32,022
Interest income	(198,403)	(77,897)	(590,944)	(153,835)
Interest expense	-	1,883	2,960	5,895
	(8,866,700)	(2,150,205)	(20,598,076)	(4,678,840)
Net change in non-cash working capital items:				
Accounts receivable	(559,466)	(885,334)	(321,722)	(900,948)
Inventory	(316,313)	91,780	(342,317)	(258,449)
Prepaid expenses and other assets	211,810	(92,772)	(15,791)	(208,185)
Accounts payable and accrued liabilities	132,573	(594,826)	966,709	100,387
Customer deposits	-	(116,300)	-	-
	(531,396)	(1,597,452)	286,879	(1,267,195)
Interest paid and received:				
Interest received	345,654	55,843	578,870	96,028
Interest paid	-	(1,883)	(2,960)	(5,895)
	345,654	53,960	575,910	90,133
	(9,052,442)	(3,693,697)	(19,735,287)	(5,855,902)
INVESTING ACTIVITIES				
Decrease/(increase) in investments	8,097,717	(2,000,000)	11,999,999	(11,999,999)
Purchase of property, plant and equipment	10 (611,927)	(284,854)	(2,174,655)	(601,857)
	7,485,790	(2,284,854)	9,825,344	(12,601,856)
FINANCING ACTIVITIES				
Repayment of long-term debt	12 -	(10,401)	(202,219)	(30,959)
Proceeds from share issue pursuant to an underwritten public offering, net of share issue costs of \$6,236,783	13 -	-	87,083,471	24,645,349
Proceeds from exercise of options	13 11,234	24,606	1,103,174	163,384
	11,234	14,205	87,984,426	24,777,774
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,555,418)	(5,964,346)	78,074,483	6,320,016
CASH AND CASH EQUIVALENTS				
Beginning of the period	85,654,914	15,687,834	6,025,013	3,403,472
End of the period	\$ 84,099,496	\$ 9,723,488	\$ 84,099,496	\$ 9,723,488
Represented by:				
Cash	\$ 17,331,464	\$ 628,990	\$ 17,331,464	\$ 628,990
Cashable high interest savings accounts	34,768,032	9,094,498	34,768,032	9,094,498
Cashable guaranteed investment certificates	32,000,000	-	32,000,000	-
6	\$ 84,099,496	\$ 9,723,488	\$ 84,099,496	\$ 9,723,488

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

(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 September 30, 2015 and December 31, 2014 and for the three and nine months ended September 30, 2015 and 2014 comprise the Company and its subsidiaries, all of which are wholly owned. The Company's principal place of business is located at Suite 5138 – 13562 Maycrest Way, Richmond, British Columbia, V6V 2J7 and the Company's registered office is located at Suite 2600 – 595 Burrard Street, Vancouver, British Columbia, V7X 1L3, Canada. The Company's shares are listed on the Toronto Stock Exchange (TSX: NVC) and the Nasdaq Capital Market (NASDAQ:NVCN).

Neovasc is a specialty medical device company that develops, manufactures and markets products for the rapidly growing cardiovascular marketplace. Its products include the 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, 2014. These interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2014 and the accompanying notes included in those financial statements. For a full description of accounting policies, refer to the audited annual consolidated financial statements of the Company for the year ended December 31, 2014.

The results for the three and nine months ended September 30, 2015 may not be indicative of the results that may be expected for the full year or any other period.

(b) Basis of consolidation

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

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

(c) Presentation of financial statements

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

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

3. CHANGES IN ACCOUNTING POLICIES

During the three and nine months ended September 30, 2015, there have been no changes in accounting policies.

4. MANAGING CAPITAL

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

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

The capital of the Company is comprised of:

	Note	September 30, 2015	December 31, 2014
Equity		\$ 88,663,858	\$ 20,913,969
Long-term debt	12	-	202,219
		<u>\$ 88,663,858</u>	<u>\$ 21,116,188</u>

For the three and nine months ended September 30, 2015 and year ended December 31, 2014 there were no changes in the Company's capital management policy.

5. FINANCIAL RISK MANAGEMENT

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

	Note	September 30, 2015	December 31, 2014
Loans and receivables			
Cash and cash equivalents	6	\$ 84,099,496	\$ 6,025,013
Investments	7	-	11,999,999
Accounts receivable	8	2,124,767	1,790,971
		<u>\$ 86,224,263</u>	<u>\$ 19,815,983</u>
Other financial liabilities			
Accounts payable and accrued liabilities	11	\$ 3,479,781	\$ 2,513,072
Long-term debt	12	-	202,219
		<u>\$ 3,479,781</u>	<u>\$ 2,715,291</u>

The carrying amount of cash and cash equivalents, investments, accounts receivable, and accounts payable and accrued liabilities is considered a reasonable approximation of fair value due to their short term nature.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

5. FINANCIAL RISK MANAGEMENT (continued)

(a) Foreign exchange risk

The majority of the Company's revenues are derived from product sales in the United States and Europe, primarily denominated in United States and European Union currencies. Management has considered the stability of the foreign currency and the impact a change in the exchange rate may have on future earnings during the forecasting process. United States and European Union currency represents approximately 55% and 45% of the revenue for nine months ended September 30, 2015 (nine months ended September 30, 2014: 39% and 52% 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 \$266,000 and \$219,000 respectively for the nine months ended September 30, 2015 (nine months ended September 30, 2014: \$241,000 and \$324,000 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 \$38,500 and \$43,000 respectively as at September 30, 2015 (December 31, 2014: \$15,000 and \$40,000), and a similar change for foreign currency denominated accounts payable will impact net income by approximately \$47,000 and \$9,000 respectively as at September 30, 2015 (December 31, 2014: \$48,000 and \$13,000). The Company does not hedge its foreign exchange risk.

(b) Interest rate risk

The Company receives interest on its investment in high interest savings accounts ("HISAs") at variable interest rate. A 1% change in the interest rate on the investment in HISAs will impact net income as at September 30, 2015 by approximately \$87,000 (December 31, 2014: \$50,000).

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

(c) Liquidity risk

As at September 30, 2015, the Company had \$84,099,496 in cash and cash equivalents. The cash used in operations during the nine months ended September 30, 2015 was \$19,681,487.

As at September 30, 2015, the Company had working capital of \$83,837,826 as compared to working capital of \$17,993,556 as at December 31, 2014.

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

As at September 30, 2015 and December 31, 2014, the Company's non-derivative financial liabilities have maturities (including interest payments where applicable) as summarized below:

	Current		Non-current	
	Within 6 months	6 to 12 months	1 to 5 years	later than 5 years
September 30, 2015				
Accounts payable and accrued liabilities	\$ 3,479,781	\$ -	\$ -	\$ -
Long-term debt	-	-	-	-
	<u>\$ 3,479,781</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2014				
Accounts payable and accrued liabilities	\$ 2,513,072	\$ -	\$ -	\$ -
Long-term debt	24,570	24,570	163,800	-
	<u>\$ 2,537,642</u>	<u>\$ 24,570</u>	<u>\$ 163,800</u>	<u>\$ -</u>

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

5. FINANCIAL RISK MANAGEMENT (continued)

(d) Credit risk

Credit risk arises from the possibility that the entities to which the Company sells products may experience financial difficulty and be unable to fulfill their contractual obligations. This risk is mitigated by proactive credit management policies that include regular monitoring of the 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 September 30, 2015: \$1,627,351 (December 31, 2014: \$1,434,455).

As at September 30, 2015, the Company had \$126,759 (as at December 31, 2014: \$2,386) of trade accounts receivable that was overdue, according to the customers' credit terms. During the three and nine months ended September 30, 2015 the Company wrote down \$nil (three and nine months ended September 30, 2014: \$218,501) accounts receivable owed by customers.

The Company may also have credit risk related to its cash and cash equivalents, and investments with a maximum exposure of \$84,099,496 as at September 30, 2015 (December 31, 2014: \$18,025,012). The Company minimizes its risk to cash and cash equivalents by dealing with Canadian chartered banks.

6. CASH AND CASH EQUIVALENTS

	September 30, 2015	December 31, 2014
Cash held in:		
Canadian dollars	\$ 5,757,608	\$ 461,425
United States dollars	11,015,559	327,858
European euros	558,297	120,765
Cashable high interest savings accounts ("HISAs")	12,342,626	5,114,965
United States dollar denominated HISAs	22,425,406	-
Guaranteed investment certificates ("GICs")	32,000,000	-
	\$ 84,099,496	\$ 6,025,013

The HISAs are held in major Canadian Chartered Banks and are denominated in Canadian dollars. The HISAs are fully cashable at any time and have a variable interest rate. The GICs, issued by major Canadian Chartered Banks, are non-cashable. Of these GICs, \$2,000,000, have a 40-day term, will mature on October 26, 2015, and have a fixed interest rate of 1.15% per annum, and \$30,000,000, have a one-month term, will mature on October 19, 2015, and have a fixed interest rate of 1.13% per annum.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

7. INVESTMENTS

	September 30, 2015	December 31, 2014
Guaranteed investment certificates	\$ -	\$ 11,999,999
	\$ -	\$ 11,999,999

8. ACCOUNTS RECEIVABLE

	September 30, 2015	December 31, 2014
Trade receivables	\$ 1,627,351	\$ 1,434,455
Other receivables	497,416	356,516
	\$ 2,124,767	\$ 1,790,971

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

	September 30, 2015	December 31, 2014
Not past due	\$ 1,500,592	\$ 1,432,069
Past due 0 - 30 days	62,669	2,386
Past due 30 - 60 days	45,528	-
Past due 90 -120 days	18,562	-
	\$ 1,627,351	\$ 1,434,455

All of the Company's trade and other receivables have been reviewed for impairment. During the year ended December 31, 2014 the Company wrote down \$218,501 accounts receivable owed by a single customer. There were no write-downs to accounts receivable for the nine months ended September 30, 2015.

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

9. INVENTORY

	September 30, 2015	December 31, 2014
Raw materials	\$ 492,772	\$ 264,748
Work in progress	247,886	128,804
Finished goods	77,634	82,423
	\$ 818,292	\$ 475,975

During the three and nine months ended September 30, 2015 \$670,761 and \$2,615,973 (three and nine months ended September 30, 2014: \$1,318,537 and \$3,933,717) of inventory was expensed in cost of goods sold, and \$670,000 and \$2,567,225 (three and nine months ended September 30, 2014: \$637,272 and \$1,376,396) of inventory was used in internal development projects and expensed in product development and clinical trial expenses.

During the three and nine months ended September 30, 2015 and 2014 the Company did not write down any obsolete inventory.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

10. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Leasehold improvements	Production equipment	Computer hardware	Computer software	Office equipment	Total
COST								
Balance at January 1, 2014	\$ 207,347	\$ 1,627,005	\$ 76,958	\$ 1,126,656	\$ 318,390	\$ 308,677	\$ 220,413	\$ 3,885,446
Additions during the year	-	393,206	41,100	403,486	212,600	36,512	162,070	1,248,974
Disposals during the year	-	-	(76,958)	-	-	-	(29,553)	(106,511)
Balance at December 31, 2014	\$ 207,347	\$ 2,020,211	\$ 41,100	\$ 1,530,142	\$ 530,990	\$ 345,189	\$ 352,930	\$ 5,027,909
Additions during the period	311,360	742,060	120,501	859,977	65,674	45,667	29,416	2,174,655
Balance at September 30, 2015	\$ 518,707	\$ 2,762,271	\$ 161,601	\$ 2,390,119	\$ 596,664	\$ 390,856	\$ 382,346	\$ 7,202,564
ACCUMULATED DEPRECIATION								
Balance at January 1, 2014	\$ -	\$ 346,888	\$ 31,107	\$ 624,574	\$ 195,614	\$ 298,648	\$ 151,715	\$ 1,648,546
Depreciation for the year	-	51,366	35,891	180,838	62,105	25,513	20,098	375,811
Disposals during the year	-	-	(65,887)	-	-	-	(8,602)	(74,489)
Balance at December 31, 2014	\$ -	\$ 398,254	\$ 1,111	\$ 805,412	\$ 257,719	\$ 324,161	\$ 163,211	\$ 1,949,868
Depreciation for the period	-	42,082	27,803	228,457	73,408	23,382	31,532	426,664
Balance at September 30, 2015	\$ -	\$ 440,336	\$ 28,914	\$ 1,033,869	\$ 331,127	\$ 347,543	\$ 194,743	\$ 2,376,532
CARRYING AMOUNTS								
At December 31, 2014	\$ 207,347	\$ 1,621,957	\$ 39,989	\$ 724,730	\$ 273,271	\$ 21,028	\$ 189,719	\$ 3,078,041
At September 30, 2015	\$ 518,707	\$ 2,321,935	\$ 132,687	\$ 1,356,250	\$ 265,537	\$ 43,313	\$ 187,603	\$ 4,826,032

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2015	December 31, 2014
Trade payables	\$ 2,901,146	\$ 2,139,005
Accrued vacation	404,812	278,540
Accrued liabilities	138,750	65,000
Other payables	35,073	30,527
	<u>\$ 3,479,781</u>	<u>\$ 2,513,072</u>

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

12. LONG-TERM DEBT

	September 30, 2015	December 31, 2014
Bank installment loan	\$ -	\$ 202,219
Less current portion	-	(44,591)
	<u>\$ -</u>	<u>\$ 157,628</u>

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

In June 2015, the Company repaid the long-term debt.

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

	September 30, 2015	December 31, 2014
Year 1	\$ -	\$ 44,591
Year 2	-	45,874
Year 3	-	46,987
Year 4	-	48,127
Year 5	-	16,640
	<u>\$ -</u>	<u>\$ 202,219</u>

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

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

13. SHARE CAPITAL

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

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

(a) Authorized

Unlimited number of common shares without par value.

Unlimited number of preferred shares without par value.

(b) Issued and outstanding

	Common Shares		Contributed Surplus
	Number	Amount	
Balance, January 1, 2014	48,215,080	\$ 73,411,391	\$ 10,305,204
Issued for cash pursuant to bought deal prospectus offering (i)	4,192,000	25,152,000	-
Share issue costs (i)	-	(506,651)	-
Issued for cash on exercise of options	601,459	935,595	(743,670)
Issued on net exercise of options (ii)	833,805	177,300	(177,300)
Share-based payments	-	-	9,515,201
Balance, December 31, 2014	53,842,344	\$ 99,169,635	\$ 18,899,435
Issued for cash pursuant to an underwritten public offering (iii)	10,415,000	93,320,254	-
Share issue costs (iii)	-	(6,236,783)	-
Issued for cash on exercise of options	2,296,253	2,403,831	(1,300,657)
Share-based payments	-	-	4,015,563
Balance, September 30, 2015	66,553,597	\$ 188,656,937	\$ 21,614,341

- (i) On March 26, 2014, the Company closed a bought deal equity prospectus offering underwritten by Cormark Securities Inc., which placed 4,192,000 common shares of Neovasc at a price of \$6.00 per common share, for gross cash proceeds to the Company of \$25,152,000. The share issue costs were \$506,651.
- (ii) On May 26, 2014, 962,500 options were exercised under a net exercise provision in the stock option plan. Under this provision the Company issued fully paid and non-assessable common shares to the option holder equal to the number of options exercised multiplied by the quotient obtained by dividing the result of the market price of one common share on the date of the exercise less the exercise price per common share by the market price of one common share on the date of the exercise. This provision is anti-dilutive to the existing shareholders. The Company does not receive cash proceeds from the exercise of the options but issues fewer common shares on the exercise of the options.
- (iii) On February 3, 2015, the Company closed an underwritten public offering of 12,075,000 common shares of the Company (of which 10,415,000 common shares were issued from treasury) at a price per share of US\$7.19 for aggregate gross proceeds of approximately US\$74,883,850 (\$93,320,254) for the Company and US\$11,935,400 (\$14,873,895) for the selling security holders (including some directors, officers and employees). The share issue costs incurred by the Company were \$6,236,783.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

13. SHARE CAPITAL (continued)

(c) Stock options

The Company adopted an equity-settled stock option plan under which the directors of the Company may grant options to purchase common shares to directors, officers, employees and service providers (the "optionees") of the Company on terms that the directors of the Company may determine within the limitations set forth in the stock option plan. Effective June 18, 2014, at the Annual General Meeting ("AGM"), the board of directors and shareholders of the Company approved an amendment to the Company's incentive stock option plan to increase the number of options available for grant under the plan to 10,515,860, representing approximately 20% of the number of common shares of the Company outstanding on May 16, 2014.

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

	Number of options	Weighted average exercise price	Average remaining contractual life (years)
Options outstanding, January 1, 2014	8,784,920	\$ 1.04	2.20
Granted	2,150,000	6.52	
Exercised for cash	(601,459)	0.32	
Exercised under net exercise provision (see Note 13(b)(ii))	(962,500)	0.95	
Forfeited	(24,572)	3.47	
Options outstanding, December 31, 2014	9,346,389	\$ 2.37	2.19
Granted	911,547	10.18	
Exercised	(2,296,253)	0.48	
Forfeited	(32,820)	5.36	
Options outstanding, September 30, 2015	7,928,863	\$ 3.80	2.27
Options exercisable, September 30, 2015	6,564,711	\$ 3.05	1.93

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

Exercise price	Options outstanding	Weighted average remaining term (yrs)	Options exercisable	Weighted average remaining term (yrs)
\$ 0.01	236,308	2.60	236,308	2.60
\$ 0.20-0.40	1,789,875	0.18	1,789,875	0.18
\$ 0.97-1.45	4,123,900	1.64	3,996,250	1.40
\$ 2.00-4.25	1,051,006	3.27	720,402	3.22
\$ 6.50-7.00	2,145,300	4.35	1,589,060	4.31
	9,346,389		8,331,895	

The following table lists the options outstanding as at September 30, 2015 by exercise price:

Exercise price	Options outstanding	Weighted average remaining term (yrs)	Options exercisable	Weighted average remaining term (yrs)
\$ 0.01	86,280	2.31	86,280	2.31
\$ 0.97-1.60	3,805,850	0.90	3,768,050	0.80
\$ 2.00-4.25	998,006	2.53	756,152	2.47
\$ 5.80-7.00	2,133,180	3.60	1,711,920	3.57
\$ 7.00-9.00	304,500	4.78	60,900	4.78
\$ 11.00 -13.00	601,047	4.49	181,409	4.46
	7,928,863		6,564,711	

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

13. SHARE CAPITAL (continued)

(c) Stock options (continued)

The weighted average share price at the date of exercise for share options exercised for the nine months ended September 30, 2015 was \$9.22 (nine months ended September 30, 2014: \$6.76). During the three and nine months ended September 30, 2015, the Company recorded \$1,148,474 and \$4,015,563 as compensation expense for share-based compensation awarded to eligible optionees (three and nine months ended September 30, 2014: \$2,385,694 and \$6,616,335). The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the options at each measurement date using the following weighted average assumptions:

	2015		2014
Weighted average fair value	\$ 7.43	\$	5.18
Dividend yield	nil		nil
Volatility	90%		110%
Risk-free interest rate	0.75%		1.75%
Expected life	5 years		5 years
Forfeiture rate	1%		5%

14. SEGMENT INFORMATION

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
REVENUE				
United States	\$ 1,460,660	\$ 1,275,137	\$ 4,556,689	\$ 3,325,731
Europe	1,712,872	2,862,085	4,940,509	8,825,484
Israel	64,278	132,138	201,092	358,795
	\$ 3,237,810	\$ 4,269,360	\$ 9,698,290	\$ 12,510,010

Sales to the Company's four largest customers accounted for approximately 29%, 26%, 18%, and 16% of the Company's sales for the three months ended September 30, 2015 and 28%, 26%, 18% and 15% of the Company's sales for the nine months ended September 30, 2015. Comparatively, sales to the Company's four largest customers accounted for approximately 38%, 21%, 14%, and 11% of the Company's sales for the three months ended September 30, 2014, and 37%, 21%, 16%, and 14% of the Company's sales for the nine months ended September 30, 2014.

15. EMPLOYEE BENEFITS EXPENSE

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Salaries and wages	\$ 2,874,002	\$ 1,811,274	\$ 7,942,634	\$ 4,988,616
Pension plan and employment insurance	157,628	84,863	514,045	278,743
Contribution to defined contribution pension plan	78,662	32,786	163,512	94,496
Health benefits	316,657	128,935	736,161	350,147
Cash-based employee expenses	3,426,949	2,057,858	9,356,352	5,712,002
Share-based payments	1,148,474	2,385,694	4,015,563	6,616,335
	\$ 4,575,423	\$ 4,443,552	\$ 13,371,915	\$ 12,328,337

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
COST OF GOODS SOLD				
Depreciation	\$ 56,600	\$ 31,996	\$ 145,717	\$ 88,856
Share-based payments	85,310	74,243	293,476	203,756
Cash-based employee expenses	1,210,055	1,008,326	3,507,014	2,836,778
Other expenses	707,024	1,354,182	2,340,390	4,320,803
TOTAL COST OF GOODS SOLD	\$ 2,058,989	\$ 2,468,747	\$ 6,286,597	\$ 7,450,193
EXPENSES				
Selling expenses				
Depreciation	\$ -	\$ 96	\$ -	\$ 288
Share-based payments	13,609	1,994	39,282	8,336
Cash-based employee expenses	-	17,195	-	54,989
Other expenses	135,492	-	417,804	-
	149,101	19,285	457,086	63,613
General and administrative expenses				
Depreciation	30,565	23,583	66,428	68,510
Share-based payments	324,481	1,075,085	1,405,737	3,931,978
Cash-based employee expenses	719,320	364,233	1,932,620	1,204,641
Litigation expenses	3,706,356	400,125	6,487,082	400,125
Other expenses	1,178,658	1,053,115	3,301,999	3,051,728
	5,959,380	2,916,141	13,193,866	8,656,982
Product development and clinical trials expenses				
Depreciation	87,124	40,963	214,519	103,617
Share-based payments	725,074	1,234,372	2,277,068	2,472,265
Cash-based employee expenses	1,497,574	668,104	3,916,718	1,615,594
Other expenses	4,115,296	1,544,612	9,539,181	3,643,484
	6,425,068	3,488,051	15,947,486	7,834,960
TOTAL EXPENSES	\$ 12,533,549	\$ 6,423,477	\$ 29,598,438	\$ 16,555,555
Depreciation per Statements of Cash Flows	\$ 174,289	\$ 96,638	\$ 426,664	\$ 261,271
Share-based payments per Statements of Cash Flows	\$ 1,148,474	\$ 2,385,694	\$ 4,015,563	\$ 6,616,335
Cash-based employee expenses (see Note 15)	\$ 3,426,949	\$ 2,057,858	\$ 9,356,352	\$ 5,712,002

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

17. OPERATING LEASES

The Company entered into an agreement for additional office space in August 2013. The agreement does not contain any contingent rent clauses, renewal or purchase options or escalation clauses. The term of the lease is 24 months commencing on August 1, 2013. This lease was renegotiated in September 2014. The term of the lease is 24 months commencing on August 1, 2015.

The Company entered into an agreement for additional office space in September 2014. The agreement does not contain any contingent rent clauses, renewal or purchase options or escalation clauses. The term of the lease is 36 months commencing on October 1, 2014.

The Company entered into an agreement for additional office space in September 2014 in Minneapolis. The agreement does not contain any contingent rent clauses, renewal or purchase options or escalation clauses. The original term of the lease is 66 months commencing on September 1, 2014. Additional office space was added in July 2015 in Minneapolis. The term of the combined lease is 59 months commencing on July 1, 2015.

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

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

	As at September 30,	
	2015	2014
Year 1	\$ 279,899	\$ 176,467
Year 2	281,507	206,279
Year 3	141,544	207,656
Year 4	99,875	48,694
Year 5	85,269	50,155
Thereafter	-	21,472
	<u>\$ 888,094</u>	<u>\$ 710,723</u>

Lease payments recognized as an expense during the three and nine months ended September 30, 2015 amount to \$90,855 and \$232,816 (three and nine months ended September 30, 2014: \$40,243 and \$60,971).

18. LOSS PER SHARE

Both the basic and diluted loss per share have been calculated using the loss attributable to shareholders of the Company as the numerator. The weighted average number of common shares outstanding used for basic loss per share for the three and nine months ended September 30, 2015 amounted to 66,551,759 and 64,983,386 shares (three and nine months ended September 30, 2014: 53,746,575 and 51,790,432 shares).

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Weighted average number of common shares	66,551,759	53,746,575	64,983,386	51,790,432
Loss for the period	(9,991,060)	(4,588,545)	(24,452,319)	(11,440,528)
Basic loss per share	<u>\$ (0.15)</u>	<u>\$ (0.09)</u>	<u>\$ (0.38)</u>	<u>\$ (0.22)</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

For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

19. RELATED PARTY TRANSACTIONS

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Short-term employee benefits				
Employee salaries and bonuses	\$ 384,236	\$ 320,586	\$ 1,186,719	\$ 827,577
Directors fees	90,410	33,624	260,219	98,811
Social security and medical care costs	9,823	4,087	33,040	24,762
	<u>484,469</u>	<u>358,297</u>	<u>1,479,978</u>	<u>951,150</u>
Post-employment benefits				
Contributions to defined contribution pension plan	6,986	6,933	30,499	26,791
Share-based payments	<u>132,416</u>	<u>1,453,079</u>	<u>1,227,741</u>	<u>4,602,671</u>
Total key management remuneration	<u>\$ 623,871</u>	<u>\$ 1,818,309</u>	<u>\$ 2,738,218</u>	<u>\$ 5,580,612</u>

20. AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the three and nine months ended September 30, 2015 (including comparatives) were approved by the audit committee on behalf of the board of directors on November 9, 2015.

(signed) **Alexei Marko**

Alexei Marko, Director

(signed) **Steve Rubin**

Steve Rubin, Director