



**Neovasc Inc.**  
**CONDENSED INTERIM CONSOLIDATED**  
**FINANCIAL STATEMENTS (UNAUDITED)**

**FOR THE THREE MONTHS ENDED**  
**MARCH 31, 2016 AND 2015**

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

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# NEOVASC INC.

## Condensed Interim Consolidated Statements of Financial Position

(Expressed in U.S. dollars)

	Notes	March 31, 2016	December 31, 2015 (Audited)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	\$ 46,903,192	\$ 55,026,171
Accounts receivable	7	1,902,585	1,736,941
Inventory	8	1,151,698	598,136
Prepaid expenses and other assets		436,894	146,590
<b>Total current assets</b>		<b>50,394,369</b>	<b>57,507,838</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	4,137,705	3,720,556
<b>Total non-current assets</b>		<b>4,137,705</b>	<b>3,720,556</b>
<b>Total assets</b>		<b>\$ 54,532,074</b>	<b>\$ 61,228,394</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	10	\$ 3,518,274	\$ 3,232,971
<b>Total current liabilities and total liabilities</b>		<b>3,518,274</b>	<b>3,232,971</b>
<b>Equity</b>			
Share capital	11	161,607,466	161,505,037
Contributed surplus	11	21,076,760	20,569,110
Accumulated other comprehensive loss		(5,500,575)	(8,790,011)
Deficit		(126,169,851)	(115,288,713)
<b>Total equity</b>		<b>51,013,800</b>	<b>57,995,423</b>
<b>Total liabilities and equity</b>		<b>\$ 54,532,074</b>	<b>\$ 61,228,394</b>

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

# NEOVASC INC.

## Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

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

	Notes	2016	2015
<b>REVENUE</b>			
Reducer		\$ 213,765	\$ 40,398
Product sales		-	223,411
Contract manufacturing		606,783	563,562
Consulting services		1,186,194	1,477,452
	12	<u>2,006,742</u>	<u>2,304,823</u>
<b>COST OF GOODS SOLD</b>	14	<u>1,445,644</u>	<u>1,607,572</u>
<b>GROSS PROFIT</b>		<u>561,098</u>	<u>697,251</u>
<b>EXPENSES</b>			
Selling expenses	14	164,847	123,822
General and administrative expenses	14	5,827,405	2,326,386
Product development and clinical trials expenses	14	4,082,787	3,431,393
		<u>10,075,039</u>	<u>5,881,601</u>
<b>OPERATING LOSS</b>		<u>(9,513,941)</u>	<u>(5,184,350)</u>
<b>OTHER INCOME/(EXPENSE)</b>			
Interest income		89,274	99,435
Interest expense		-	(1,300)
(Loss)/gain on foreign exchange		(1,408,297)	124,841
		<u>(1,319,023)</u>	<u>222,976</u>
<b>LOSS BEFORE TAX</b>		<u>(10,832,964)</u>	<u>(4,961,374)</u>
Tax expense		(48,174)	-
<b>LOSS FOR THE PERIOD</b>		<u>\$ (10,881,138)</u>	<u>\$ (4,961,374)</u>
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>			
Exchange difference on translation		3,289,436	(2,715,680)
<b>LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>		<u>\$ (7,591,702)</u>	<u>\$ (7,677,054)</u>
<b>LOSS PER SHARE</b>			
Basic and diluted loss per share	16	<u>\$ (0.16)</u>	<u>\$ (0.08)</u>

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

# NEOVASC INC.

## Condensed Interim Consolidated Statements of Changes in Equity

(Expressed in U.S. dollars)

	Notes	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
<b>Balance at January 1, 2015</b>		<b>\$ 89,357,061</b>	<b>\$ 17,632,809</b>	<b>\$ (403,806)</b>	<b>\$ (88,558,223)</b>	<b>\$ 18,027,841</b>
Issue of share capital pursuant to an underwritten public offering	11(b)(i)	74,883,850	-	-	-	74,883,850
Share issue costs	11(b)(i)	(5,004,640)	-	-	-	(5,004,640)
Issue of share capital on exercise of options		1,861,755	(972,543)	-	-	889,212
Share-based payments		-	1,194,814	-	-	1,194,814
<b>Transaction with owners during the period</b>		<b>71,740,965</b>	<b>222,271</b>	<b>-</b>	<b>-</b>	<b>71,963,236</b>
<b>Loss for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,961,374)</b>	<b>(4,961,374)</b>
<b>Other comprehensive loss for the period</b>		<b>-</b>	<b>-</b>	<b>(2,715,680)</b>	<b>-</b>	<b>(2,715,680)</b>
<b>Balance at March 31, 2015</b>		<b>\$ 161,098,026</b>	<b>\$ 17,855,080</b>	<b>\$ (3,119,486)</b>	<b>\$ (93,519,597)</b>	<b>\$ 82,314,023</b>
<b>Balance at January 1, 2016</b>		<b>\$ 161,505,037</b>	<b>\$ 20,569,110</b>	<b>\$ (8,790,011)</b>	<b>\$ (115,288,713)</b>	<b>\$ 57,995,423</b>
Issue of share capital on exercise of options		102,429	(53,934)	-	-	48,495
Share-based payments		-	561,584	-	-	561,584
<b>Transaction with owners during the period</b>		<b>102,429</b>	<b>507,650</b>	<b>-</b>	<b>-</b>	<b>610,079</b>
<b>Loss for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(10,881,138)</b>	<b>(10,881,138)</b>
<b>Other comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>3,289,436</b>	<b>-</b>	<b>3,289,436</b>
<b>Balance at March 31, 2016</b>		<b>\$ 161,607,466</b>	<b>\$ 21,076,760</b>	<b>\$ (5,500,575)</b>	<b>\$ (126,169,851)</b>	<b>\$ 51,013,800</b>

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

# NEOVASC INC.

## Condensed Interim Consolidated Statements of Cash Flows

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

	Notes	2016	2015
<b>OPERATING ACTIVITIES</b>			
Loss for the period		\$ (10,881,138)	\$ (4,961,374)
Adjustments for:			
Depreciation	14	147,483	97,229
Share-based payments	14	561,584	1,194,814
Write-down accounts receivable		4,859	-
Interest income		(89,274)	(99,435)
Interest expense		-	1,300
		<u>(10,256,486)</u>	<u>(3,767,466)</u>
Net change in non-cash working capital items:			
Accounts receivable		(43,249)	24,117
Inventory		(484,910)	(40,424)
Prepaid expenses and other assets		(264,894)	(88,177)
Accounts payable and accrued liabilities		64,489	373,766
		<u>(728,564)</u>	<u>269,282</u>
Interest paid and received:			
Interest received		81,338	41,150
Interest paid		-	(1,300)
		<u>81,338</u>	<u>39,850</u>
<b>Net cash applied to operating activities</b>		<u>(10,903,712)</u>	<u>(3,458,334)</u>
<b>INVESTING ACTIVITIES</b>			
Redemption of guaranteed investment certificates		-	4,028,499
Purchase of property, plant and equipment	9	(305,585)	(394,904)
<b>Net cash (applied to)/received from investing activities</b>		<u>(305,585)</u>	<u>3,633,595</u>
<b>FINANCING ACTIVITIES</b>			
Repayment of long-term debt		-	(8,598)
Proceeds from share issue pursuant to an underwritten public offering, net of share issue costs	11	-	69,879,210
Proceeds from exercise of options	11	48,495	862,607
<b>Net cash received from financing activities</b>		<u>48,495</u>	<u>70,733,219</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<u>(11,160,802)</u>	<u>70,908,480</u>
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning of the period		55,026,171	5,193,561
Exchange difference on cash and cash equivalents		3,037,823	(1,678,706)
End of the period		<u>\$ 46,903,192</u>	<u>\$ 74,423,335</u>
Represented by:			
Cash	6	6,822,114	1,174,900
Cashable high interest savings accounts	6	21,558,219	47,361,451
Cashable guaranteed investment certificates	6	18,522,859	25,886,984
		<u>\$ 46,903,192</u>	<u>\$ 74,423,335</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, 2016 and 2015

(Expressed in U.S. dollars)

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### 1. INCORPORATION AND NATURE OF BUSINESS

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

Neovasc is the parent company. The condensed interim consolidated financial statements of the Company as at March 31, 2016 and 2015 and for the three months ended March 31, 2016 and 2015 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 Tiarai for the transcatheter treatment of mitral valve disease and the Neovasc Reducer for the treatment of refractory angina.

### 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, 2015. 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, 2015 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, 2015.

The results for the three months ended March 31, 2016 may not be indicative of the results that may be expected for the full year or any other period.

#### (b) Basis of consolidation

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

#### (c) Presentation of financial statements

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements have been prepared in accordance with the accounting policies adopted in the Company's most recent annual consolidated financial statements for the year ended December 31, 2015.

### 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).

# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Expressed in U.S. dollars)

The capital of the Company is comprised of:

	<b>March 31, 2015</b>	December 31, 2015
Equity	<b>\$ 51,013,800</b>	\$ 57,995,423

For the three months ended March 31, 2016 and 2015 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	<b>March 31, 2016</b>	December 31, 2015
<b>Loans and receivables</b>			
Cash and cash equivalents	6	<b>\$ 46,903,192</b>	\$ 55,026,171
Accounts receivable	7	<b>1,902,585</b>	1,736,941
		<b>\$ 48,805,777</b>	\$ 56,763,112
<b>Other financial liabilities</b>			
Accounts payable and accrued liabilities	10	<b>\$ 3,518,274</b>	\$ 3,232,971

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

#### (a) Foreign exchange risk

The majority of the Company's revenues are derived from product sales in the United States and Europe (EU), primarily denominated in U.S. and EU currencies. Management has considered the stability of the foreign currency and the impact a change in the exchange rate may have on future earnings during the forecasting process. U.S. and EU currency represents approximately 59% and 41% of the revenue for three months ended March 31, 2016 (2015: 53% and 47% respectively). A 10% change in the foreign exchange rates for U.S. and EU currencies will result in a change in revenues of approximately \$118,500 and \$82,000 respectively for the three months ended March 31, 2016. A 10% change in the foreign exchange rates for the U.S. and EU currencies for foreign currency denominated accounts receivable will impact net income as at March 31, 2016 by approximately \$90,000 and \$62,000 respectively (as at December 31, 2015: \$84,000 and \$60,000), and a similar change for foreign currency denominated accounts payable will impact net income by approximately \$220,000 and \$14,000 respectively as at March 31, 2016 (as at December 31, 2015: \$164,000 and \$24,000). The Company does not hedge its foreign exchange risk.

#### (b) Interest rate risk

The Company receives interest on its investment in high interest savings accounts (HISAs) at variable interest rates. A 1% change in the interest rate on the investment in HISAs will impact net income as at March 31, 2016 by approximately \$216,000 (2015: \$255,000).

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



# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Expressed in U.S. dollars)

### 5. FINANCIAL RISK MANAGEMENT (continued)

#### (c) Liquidity risk

As at March 31, 2016, the Company had \$46,903,192 in cash and cash equivalents as compared to cash and cash equivalents of \$55,026,171 at December 31, 2015. The cash used in operations during the three months ended March 31, 2016 was \$10,903,712. As at March 31, 2016, the Company had working capital of \$46,876,095 as compared to working capital of \$54,274,867 at December 31, 2015.

The Company monitors its cash flow on a monthly basis and compares actual performance to the budget for the period. The Company believes it has sufficient funds 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, 2016 and December 31, 2015, all the Company's non-derivative financial liabilities have maturities (including interest payments where applicable) within 6 months.

#### (d) Credit risk

Credit risk arises from the possibility that the entities to which the Company sells products may experience financial difficulty and be unable to fulfill their contractual obligations. This risk is mitigated by proactive credit management policies that include regular monitoring of the debtors' payment history and performance. The Company does not require collateral from its customers as security for trade accounts receivable but may require certain customers to pay in advance of any work being performed or product being shipped.

The maximum exposure, if all of the Company's customers were to default at the same time is the full carrying value of the trade accounts receivable as at March 31, 2016: \$1,515,115 (as at December 31, 2015: \$1,393,533).

As at March 31, 2016, the Company had \$48,862 (as at December 31, 2015: \$91,813) of trade accounts receivable that was overdue, according to the customers' credit terms. During the three months ended March 31, 2016 the Company wrote down \$4,859 of accounts receivable owed by customers (three months ended March 31, 2015: \$nil).

The Company may also have credit risk related to its cash and cash equivalents, and investments with a maximum exposure of \$46,903,192 as at March 31, 2016 (as at December 31, 2015: \$55,026,171). The Company minimizes its risk to cash and cash equivalents by dealing with Canadian chartered banks.

### 6. CASH AND CASH EQUIVALENTS

	March 31, 2016	December 31, 2015
Cash held in:		
Canadian dollars	\$ 569,592	\$ 635,614
U.S. dollars	6,088,067	7,104,699
Euros	164,455	120,415
Cashable Canadian dollar high interest savings accounts (%HISAs+)	4,796,483	8,738,088
Cashable U.S. dollar high interest savings accounts	16,761,736	16,752,355
Cashable Canadian dollar guaranteed investment certificate (%GICs+)	18,522,859	21,675,000
	<u>\$ 46,903,192</u>	<u>\$ 55,026,171</u>

The HISAs and GICs are held in major Canadian Chartered Banks. The HISAs are fully cashable at any time and have a variable interest rate. The GICs are fully cashable within 90 days and have fixed interest rates.

# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Expressed in U.S. dollars)

### 7. ACCOUNTS RECEIVABLE

	<b>March 31, 2016</b>	December 31, 2015
Trade receivables	\$ 1,515,115	\$ 1,393,533
Other receivables	<b>387,470</b>	343,408
	<b>\$ 1,902,585</b>	<b>\$ 1,736,941</b>

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

	<b>March 31, 2016</b>	December 31, 2015
Not past due	\$ 1,466,253	\$ 1,301,720
Past due 0 - 30 days	783	89,643
30 - 60 days	<b>48,079</b>	1,846
60 - 90 days	-	324
	<b>\$ 1,515,115</b>	<b>\$ 1,393,533</b>

All of the Company's trade and other receivables have been reviewed for impairment. During the three months ended March 31, 2016, the Company wrote down \$4,859 accounts receivable (three months ended March 31, 2015: \$nil).

There was no allowance for doubtful accounts as at March 31, 2016 or as at December 31, 2015 and there was no movement in the allowance for doubtful accounts in either period.

### 8. INVENTORY

	<b>March 31, 2016</b>	December 31, 2015
Raw materials	\$ 575,884	\$ 492,785
Work in progress	<b>249,711</b>	88,856
Finished goods	<b>326,103</b>	16,495
	<b>\$ 1,151,698</b>	<b>\$ 598,136</b>

During the three months ended March 31, 2016 \$619,048 (three months ended March 31, 2015: \$748,473) of inventory was expensed in cost of goods sold, and \$785,988 (three months ended March 31, 2015: \$438,291) of inventory was used in internal development projects and expensed in product development and clinical trial expenses.

During the three months ended March 31, 2016 and 2015 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, 2016 and 2015

(Expressed in U.S. dollars)

### 9. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Leasehold improvements	Production equipment	Computer hardware	Computer software	Office equipment	Total
<b>COST</b>								
Balance at January 1, 2015	\$ 178,734	\$ 1,741,422	\$ 35,428	\$ 1,318,982	\$ 457,713	\$ 297,553	\$ 304,226	\$ 4,334,058
Additions during the year	253,198	805,810	93,361	833,690	52,914	80,455	23,700	2,143,128
Cumulative translation adjustment	(57,166)	(346,428)	(10,780)	(281,957)	(79,537)	(51,650)	(51,681)	(879,199)
<b>Balance as at December 31, 2015</b>	<b>\$ 374,766</b>	<b>\$ 2,200,804</b>	<b>\$ 118,009</b>	<b>\$ 1,870,715</b>	<b>\$ 431,090</b>	<b>\$ 326,358</b>	<b>\$ 276,245</b>	<b>\$ 5,597,987</b>
Additions during the period	-	80,460	-	95,635	28,765	100,725	-	305,585
Cumulative translation adjustment	25,157	152,465	7,922	131,198	30,629	27,829	18,544	393,744
<b>Balance as at March 31, 2016</b>	<b>\$ 399,923</b>	<b>\$ 2,433,729</b>	<b>\$ 125,931</b>	<b>\$ 2,097,548</b>	<b>\$ 490,484</b>	<b>\$ 454,912</b>	<b>\$ 294,789</b>	<b>\$ 6,297,316</b>
<b>ACCUMULATED DEPRECIATION</b>								
Balance at January 1, 2015	\$ -	\$ 343,295	\$ 958	\$ 694,265	\$ 222,154	\$ 279,427	\$ 140,688	\$ 1,680,787
Depreciation for the year	-	51,010	34,119	270,231	78,158	36,817	33,374	503,709
Cumulative translation adjustment	-	(59,066)	(2,062)	(130,469)	(42,706)	(47,318)	(25,444)	(307,065)
<b>Balance as at December 31, 2015</b>	<b>\$ -</b>	<b>\$ 335,239</b>	<b>\$ 33,015</b>	<b>\$ 834,027</b>	<b>\$ 257,606</b>	<b>\$ 268,926</b>	<b>\$ 148,618</b>	<b>\$ 1,877,431</b>
Depreciation for the period	-	19,161	12,280	81,306	13,833	14,472	6,431	147,483
Cumulative translation adjustment	-	23,631	2,938	60,766	18,105	18,902	10,355	134,697
<b>Balance as at March 31, 2016</b>	<b>\$ -</b>	<b>\$ 378,031</b>	<b>\$ 48,233</b>	<b>\$ 976,099</b>	<b>\$ 289,544</b>	<b>\$ 302,300</b>	<b>\$ 165,404</b>	<b>\$ 2,159,611</b>
<b>CARRYING AMOUNTS</b>								
As at December 31, 2015	\$ 374,766	\$ 1,865,565	\$ 84,994	\$ 1,036,688	\$ 173,484	\$ 57,432	\$ 127,627	\$ 3,720,556
As at March 31, 2016	\$ 399,923	\$ 2,055,698	\$ 77,698	\$ 1,121,449	\$ 200,940	\$ 152,612	\$ 129,385	\$ 4,137,705

# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Expressed in U.S. dollars)

### 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2016	December 31, 2015
Trade payables	\$ 3,168,236	\$ 2,515,815
Accrued vacation	258,287	167,604
Accrued liabilities	12,529	221,167
Tax payable	11,971	155,169
Other payables	67,251	173,216
	<u>\$ 3,518,274</u>	<u>\$ 3,232,971</u>

### 11. SHARE CAPITAL

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

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

#### (a) Authorized

Unlimited number of common shares without par value.

Unlimited number of preferred shares without par value.

#### (b) Issued and outstanding

	Common Shares		Contributed Surplus
	Number	Amount	
<b>Balance, January 1, 2015</b>	<b>53,842,344</b>	<b>\$ 89,357,061</b>	<b>\$ 17,632,809</b>
Issued for cash pursuant to an underwritten public offering (i)	10,415,000	74,883,850	-
Share issue costs (i)	-	(5,004,640)	-
Issued for cash on exercise of options	2,507,603	-	(1,177,864)
Share-based payments	-	-	4,114,165
<b>Balance, December 31, 2015</b>	<b>66,764,947</b>	<b>\$ 161,505,037</b>	<b>\$ 20,569,110</b>
Issued for cash on exercise of options	72,398	102,429	(53,934)
Share-based payments	-	-	561,584
<b>Balance, March 31, 2016</b>	<b>66,837,745</b>	<b>\$ 161,607,466</b>	<b>\$ 21,076,760</b>

- (i) 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 \$74,883,850 for the Company and \$11,935,400 for the selling security holders (including some directors, officers and employees). The share issue costs incurred by the Company were \$5,004,640.

# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Expressed in U.S. dollars)

### 11. 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 were not issued under the Company's stock option plan. The following table summarizes stock option activity for the respective periods as follows:

	Number of options	Weighted average exercise price	Average remaining contractual life (years)
<b>Options outstanding, January 1, 2015</b>	<b>9,346,389</b>	<b>C\$ 2.37</b>	<b>2.19</b>
Granted	1,423,677	8.57	
Exercised	(2,507,603)	0.53	
Forfeited	(127,760)	8.46	
<b>Options outstanding, December 31, 2015</b>	<b>8,134,703</b>	<b>C\$ 3.92</b>	<b>2.22</b>
<b>Options exercisable, December 31, 2015</b>	<b>6,491,040</b>	<b>C\$ 3.15</b>	<b>1.78</b>
Granted	109,061	C\$ 4.94	
Exercised	(72,398)	0.92	
Forfeited	(3,276)	6.97	
<b>Options outstanding, March 31, 2016</b>	<b>8,168,090</b>	<b>C\$ 3.98</b>	<b>2.03</b>
<b>Options exercisable, March 31, 2016</b>	<b>6,505,384</b>	<b>C\$ 3.18</b>	<b>1.56</b>

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

Exercise price	Options outstanding	Weighted average remaining term (yrs)	Options exercisable	Weighted average remaining term (yrs)
C\$0.01	79,482	1.81	79,482	1.81
C\$0.97-1.45	3,543,500	0.44	3,505,700	0.40
C\$2.00-4.94	1,090,467	2.31	862,586	2.06
C\$5.00-7.00	2,548,894	3.38	1,805,907	3.15
C\$7.00-9.00	373,000	4.33	77,000	4.33
C\$10.00-13.00	532,747	3.98	174,709	3.96
	<b>8,168,090</b>		<b>6,505,384</b>	

The following table lists the options outstanding at December 31, 2015 by exercise price:

Exercise price	Options outstanding	Weighted average remaining term (yrs)	Options exercisable	Weighted average remaining term (yrs)
C\$0.01	86,280	2.06	86,280	2.06
C\$0.97-1.45	3,608,500	0.68	3,570,700	0.61
C\$2.00-4.25	982,606	2.27	775,804	2.25
C\$5.00-7.00	2,550,570	3.62	1,806,347	3.40
C\$7.00-9.00	373,000	4.58	77,000	4.58
C\$10.00-13.00	533,747	4.23	174,909	4.21
	<b>8,134,703</b>		<b>6,491,040</b>	

# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Expressed in U.S. dollars)

### 11. 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, 2016 was \$3.71 (three months ended March 31, 2015: \$7.44). During the three months ended March 31, 2016, the Company recorded \$561,584 as compensation expense for share-based compensation awarded to eligible optionees (three months ended March 31, 2015: \$1,194,814). 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:

	2016		2015
Weighted average fair value	\$ 2.22	\$	4.85
Dividend yield	nil		nil
Volatility	77%		76%
Risk-free interest rate	0.75%		0.75%
Expected life	5 years		5 years
Forfeiture rate	1%		1%

### 12. 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,	
	2016	2015
<b>REVENUE</b>		
United States	\$ 890,206	\$ 1,038,976
Europe	996,926	1,213,152
Rest of the World	119,610	52,695
	<b>\$ 2,006,742</b>	<b>\$ 2,304,823</b>

Sales to the Company's three largest customers accounted for approximately 37%, 26%, and 19% of the Company's sales for the three months ended March 31, 2016. Sales to the Company's four largest customers accounted for approximately 29%, 19%, 19% and 15% of the Company's sales for the three months ended March 31, 2015.

### 13. EMPLOYEE BENEFITS EXPENSE

	For the three months ended March 31,	
	2016	2015
Salaries and wages	\$ 2,367,196	\$ 1,874,403
Pension plan and employment insurance	174,437	148,799
Contribution to defined contribution pension plan	51,371	37,172
Health benefits	247,251	149,654
Cash-based employee expenses	2,840,255	2,210,028
Share-based payments	561,584	1,194,814
Total employee expenses	<b>\$ 3,401,839</b>	<b>\$ 3,404,842</b>

# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Expressed in U.S. dollars)

### 14. DEPRECIATION, SHARE-BASED PAYMENTS, EMPLOYEE AND OTHER EXPENSES

	For the three months ended March 31,	
	2016	2015
<b>COST OF GOODS SOLD</b>		
Depreciation	\$ 51,204	\$ 34,029
Share-based payments	78,327	43,771
Cash-based employee expenses	882,998	883,189
Other expenses	433,115	646,583
<b>TOTAL COST OF GOODS SOLD</b>	<b>\$ 1,445,644</b>	<b>\$ 1,607,572</b>
<b>EXPENSES</b>		
<b>Selling expenses</b>		
Share-based payments	\$ 40,681	\$ 10,285
Cash-based employee expenses	27,025	-
Other expenses	97,141	113,537
	<b>164,847</b>	<b>123,822</b>
<b>General and administrative expenses</b>		
Depreciation	30,627	13,315
Share-based payments	193,093	650,732
Cash-based employee expenses	639,570	415,334
Litigation expenses	4,036,860	481,345
Other expenses	927,255	765,660
	<b>5,827,405</b>	<b>2,326,386</b>
<b>Product development and clinical trials expenses</b>		
Depreciation	65,652	49,885
Share-based payments	249,483	490,026
Cash-based employee expenses	1,290,662	911,505
Other expenses	2,476,990	1,979,977
	<b>4,082,787</b>	<b>3,431,393</b>
<b>TOTAL EXPENSES</b>	<b>\$ 10,075,039</b>	<b>\$ 5,881,601</b>
Depreciation per Statements of Cash Flows	\$ 147,483	\$ 97,229
Share-based payments per Statements of Cash Flows	\$ 561,584	\$ 1,194,814
Cash-based employee expenses (see Note 13)	\$ 2,840,255	\$ 2,210,028

Litigation expenses are legal and other expenses incurred in litigation matters during the period. It does not include any provision or contingent liability estimated by management (See Note18).

# NEOVASC INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

(Expressed in U.S. dollars)

### 15. 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. 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 March 31,	
	2016	2015
Year 1	\$ 219,477	\$ 149,240
Year 2	181,745	167,138
Year 3	78,109	136,744
Year 4	80,437	43,156
Year 5	13,536	40,702
	<u>\$ 573,304</u>	<u>\$ 536,980</u>

Lease payments recognized as an expense during the three months ended March 31, 2016 amounted to \$83,044 (three months ended March 31, 2015: \$56,247).

### 16. 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, 2016 amounted to 66,817,945 shares (three months ended March 31, 2015: 61,814,912 shares).

	For the three months ended March 31,	
	2016	2015
Weighted average number of common shares	66,817,945	61,814,912
Loss for the period	<u>\$(10,881,138)</u>	<u>\$ (4,961,374)</u>
Basic loss per share	<u>\$ (0.16)</u>	<u>\$ (0.08)</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 months ended March 31, 2016 and 2015

(Expressed in U.S. dollars)

### 17. 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,	
	2016	2015
<b>Short-term employee benefits</b>		
Employee salaries and bonuses	\$ 299,397	\$ 339,684
Social security and medical care costs	13,525	14,338
Directors fees	63,757	68,976
	<u>376,679</u>	<u>422,998</u>
<b>Post-employment benefits</b>		
Contributions to defined contribution pension plan	3,797	10,020
	<u>83,941</u>	<u>757,478</u>
<b>Share-based payments</b>		
	<u>83,941</u>	<u>757,478</u>
<b>Total key management remuneration</b>	<u>\$ 464,417</u>	<u>\$ 1,190,496</u>

### 18. CONTINGENT LIABILITIES

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

When the Company assesses that it is more likely that no present obligation exists at the end of the reporting period and that the possibility of an outflow of economic resources embodying economic benefits is possible, but not probable, no provision is recognized and contingent liability disclosure is required. The Company has applied the disclosure exemption and not provided contingent liability disclosure as it may seriously prejudice the Company's position in the dispute.

### 19. AUTHORIZATION OF FINANCIAL STATEMENTS

The condensed interim consolidated financial statements for the three months ended March 31, 2016 (including comparatives) were approved by the audit committee on behalf of the board of directors on April 29, 2016.

(signed) **Alexei Marko**

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Alexei Marko, Director

(signed) **Steve Rubin**

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Steve Rubin, Director