Neovasc Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 AND 2015

(Expressed in U.S. dollars)

CONTENTS

NEOVASC INC.

Condensed Interim Consolidated Statements of Financial Position

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

	Notes	June 30, 2016	December 31, 2015
ASSETS			
Current assets			
Cash and cash equivalents	6	**$ 36,277,793**	$ 55,026,171
Accounts receivable	7	**2,017,973**	1,736,941
Inventory	8	**1,579,357**	598,136
Prepaid expenses and other assets		**425,997**	146,590
Total current assets		**40,301,120**	57,507,838
Non-current assets			
Property, plant and equipment	9	**4,151,563**	3,720,556
Total non-current assets		**4,151,563**	3,720,556
Total assets		**$ 44,452,683**	$ 61,228,394
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	**$ 5,807,035**	$ 3,232,971
Contingent liability for damages	18	**70,000,000**	-
Total current liabilities and total liabilities		**75,807,035**	3,232,971
Equity			
Share capital	11	**161,658,013**	161,505,037
Contributed surplus	11	**21,722,315**	20,569,110
Accumulated other comprehensive loss		**(4,872,369)**	(8,790,011)
Deficit		**(209,862,311)**	(115,288,713)
Total equity		**(31,354,352)**	57,995,423
Total liabilities and equity		**$ 44,452,683**	$ 61,228,394

Going Concern and Uncertainty (see Note 1)
Commitments and Contingencies (see Note 18)
Subsequent Events (see Note 19)

NEOVASC INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

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

		Three months ended June 30,		Six months ended June 30,	
	Notes	**2016**	2015	**2016**	2015
REVENUE					
Reducer		**$ 246,122**	$ 134,607	**$ 459,887**	$ 175,005
Product sales		**-**	120,097	**-**	343,508
Contract manufacturing		**240,837**	972,216	**847,620**	1,535,778
Consulting services		**1,223,973**	1,700,464	**2,410,167**	3,177,916
	12	**1,710,932**	2,927,384	**3,717,674**	5,232,207
COST OF GOODS SOLD	14	**1,391,708**	1,815,354	**2,837,352**	3,422,926
GROSS PROFIT		**319,224**	1,112,030	**880,322**	1,809,281
EXPENSES					
Selling expenses	14	**181,174**	125,478	**346,021**	249,300
General and administrative expenses	14	**7,427,124**	3,535,042	**13,254,529**	5,861,428
Product development and clinical trials expenses	14	**5,705,035**	4,280,295	**9,787,822**	7,711,688
		13,313,333	7,940,815	**23,388,372**	13,822,416
OPERATING LOSS		**(12,994,109)**	(6,828,785)	**(22,508,050)**	(12,013,135)
OTHER (EXPENSE)/INCOME					
Interest income		**46,525**	218,996	**135,799**	318,431
Interest expense		**-**	(1,238)	**-**	(2,538)
Contingent liability for damages	18	**(70,000,000)**	-	**(70,000,000)**	-
Loss on foreign exchange		**(694,956)**	(141,311)	**(2,103,253)**	(16,470)
		(70,648,431)	76,447	**(71,967,454)**	299,423
LOSS BEFORE TAX		**(83,642,540)**	(6,752,338)	**(94,475,504)**	(11,713,712)
Tax expense		**(49,920)**	-	**(98,094)**	-
LOSS FOR THE PERIOD		**$ (83,692,460)**	$ (6,752,338)	**$ (94,573,598)**	$ (11,713,712)
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD					
Exchange difference on translation		**628,206**	1,457,316	**3,917,642**	(1,258,364)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		**$ (83,064,254)**	$ (5,295,022)	**$ (90,655,956)**	$ (12,972,076)
LOSS PER SHARE					
Basic and diluted loss per share	16	**$ (1.25)**	$ (0.10)	**$ (1.41)**	$ (0.18)

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Condensed Interim Consolidated Statements of Changes in Equity

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

	Notes	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2015		**$ 89,357,061**	**$ 17,632,809**	**$ (403,806)**	**$ (88,558,223)**	**$ 18,027,841**
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		1,920,207	(1,013,666)	-	-	906,541
Share-based payments		-	2,320,394	-	-	2,320,394
Transaction with owners during the period		71,799,417	1,306,728	-	-	73,106,145
Loss for the period		**-**	**-**	**-**	**(11,713,712)**	**(11,713,712)**
Other comprehensive loss for the period		**-**	**-**	**(1,258,364)**	**-**	**(1,258,364)**
Balance at June 30, 2015		**$ 161,156,478**	**$ 18,939,537**	**$ (1,662,170)**	**$ (100,271,935)**	**$ 78,161,910**
Balance at January 1, 2016		**$ 161,505,037**	**$ 20,569,110**	**$ (8,790,011)**	**$ (115,288,713)**	**$ 57,995,423**
Issue of share capital on exercise of options		152,976	(77,784)	-	-	75,192
Share-based payments		-	1,230,989	-	-	1,230,989
Transaction with owners during the period		152,976	1,153,205	-	-	1,306,181
Loss for the period		**-**	**-**	**-**	**(94,573,598)**	**(94,573,598)**
Other comprehensive income for the period		**-**	**-**	**3,917,642**	-	**3,917,642**
Balance at June 30, 2016		**$ 161,658,013**	**$ 21,722,315**	**$ (4,872,369)**	**$ (209,862,311)**	**$ (31,354,352)**

NEOVASC INC.

Condensed Interim Consolidated Statements of Cash Flows

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

	Notes	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
OPERATING ACTIVITIES					
Loss for the period		**$ (83,692,460)**	$ (6,752,338)	**$ (94,573,598)**	$ (11,713,712)
Adjustments for:					
Depreciation	14	**199,497**	107,098	**346,980**	204,327
Share-based payments	14	**669,405**	1,125,580	**1,230,989**	2,320,394
Contingent liability for damages	18	**70,000,000**	-	**70,000,000**	-
Accounts receivable write down		**-**	-	**4,859**	-
Interest income		**(46,525)**	(251,483)	**(135,799)**	(350,918)
Interest expense		**-**	1,238	**-**	2,538
		(12,870,083)	(5,769,905)	**(23,126,569)**	(9,537,371)
Net change in non-cash working capital items:					
Accounts receivable		**(130,686)**	168,992	**(173,935)**	193,109
Inventory		**(435,245)**	19,654	**(920,155)**	(20,770)
Prepaid expenses and other assets		**9,687**	(96,087)	**(255,207)**	(184,264)
Accounts payable and accrued liabilities		**2,321,390**	301,074	**2,385,879**	674,840
		1,765,146	393,633	**1,036,582**	662,915
Interest paid and received:					
Interest received		**54,982**	180,748	**136,320**	221,898
Interest paid		**-**	(1,238)	**-**	(2,538)
		54,982	179,510	**136,320**	219,360
Net cash applied to operating activities		**(11,049,955)**	(5,196,762)	**(21,953,667)**	(8,655,096)
INVESTING ACTIVITES					
(Investment in)/redemption of guaranteed investment certificates		**-**	(892,663)	**-**	3,135,836
Purchase of property, plant and equipment	9	**(225,951)**	(872,230)	**(531,536)**	(1,267,134)
Net cash (applied to)/received from investing activities		**(225,951)**	(1,764,893)	**(531,536)**	1,868,702
FINANCING ACTIVITIES					
Repayment of long-term debt		**-**	(155,766)	**-**	(164,364)
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	**26,698**	17,329	**75,192**	906,541
Net cash received from/(applied to) financing activities		**26,698**	(138,437)	**75,192**	70,621,387
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(11,249,208)**	(7,100,092)	**(22,410,011)**	63,834,993
CASH AND CASH EQUIVALENTS					
Beginning of the period		**46,903,192**	74,423,335	**55,026,171**	5,193,561
Exchange difference on cash and cash equivalents		**623,809**	1,346,302	**3,661,633**	(359,009)
End of the period		**$ 36,277,793**	$ 68,669,545	**$ 36,277,793**	$ 68,669,545
Represented by:					
Cash	6	**18,675,154**	2,159,083	**18,675,154**	2,159,083
Cashable high interest savings accounts	6	**17,602,639**	18,070,708	**17,602,639**	18,070,708
Cashable guaranteed investment certificates	6	**-**	48,439,754	**-**	48,439,754
		$ 36,277,793	$ 68,669,545	**$ 36,277,793**	$ 68,669,545

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

1. INCORPORATION AND NATURE OF BUSINESS

(a) Business Description

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

Neovasc is the parent company. The condensed interim consolidated financial statements of the Company as at June 30, 2016 and 2015 and for the three and six months ended June 30, 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 Tiara™ for the transcatheter treatment of mitral valve disease and the Neovasc Reducer™ for the treatment of refractory angina.

(b) Going Concern and Uncertainty

As at June 30, 2016, the Company had $36,277,793 in cash and cash equivalents. On May 19, 2016, following a trial in Boston, Massachusetts, a jury awarded $70 million on certain trade secret claims made by CardiAQ Valve Technologies, Inc. ("CardiAQ") (see Note 18). Unless the Company is successful in post-trial motions and/or an appeal of the verdict, or otherwise is successful in reducing the amount of the $70 million award, the Company will require significant additional financing in order to pay the damages and to continue to operate its business. There can be no assurance that such financing will be available on favorable terms, or at all.

The Company intends to continue to vigorously defend itself in the litigation during the post-trial motion timetable as stipulated by the Court and so the outcome of these matters, including whether the Company will be required to pay some or all of the jury award of $70 million is not currently determinable. Litigation is inherently uncertain. Therefore, until these matters have been resolved to their ultimate conclusion by the appropriate courts, the Company cannot give any assurances as to the outcome. If the Company is unsuccessful in its defense of these claims, including any appeal of the verdict in the Massachusetts litigation, or is unable to settle the claims in a manner satisfactory to the Company, it may be faced with significant monetary damages that could exceed its resources, the loss of intellectual property rights and damage to its competitive position. These circumstances indicate the existence of material uncertainty and cast substantial doubt about the Company's ability to continue as a going concern.

These condensed interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the Company be unable to reduce the amount of the award or obtain significant additional financing, material adjustments may be necessary to these condensed interim consolidated financial statements should such adverse events impair the Company's ability to continue as a going concern.

2. BASIS OF PREPARATION

(a) Statement of compliance with IFRS

These condensed 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"). These condensed interim consolidated financial statements should be read in conjunction with the Company's audited 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 Company's audited consolidated financial statements for the year ended December 31, 2015. The results for the three and six months ended June 30, 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.

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

2. BASIS OF PREPARATION (continued)

(c) Presentation of financial statements

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

(d) Significant Judgments and estimates

The Company's management makes judgments in its process of applying the Company's accounting policies in the preparation of its condensed interim consolidated financial statements. In addition, the preparation of the financial data requires that the Company's management makes assumptions and estimates of the impacts of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting impacts on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. In preparing the Company's condensed interim consolidated financial statements for the three and six months ended June 30, 2016, the Company applied the critical judgments and estimates disclosed in Note 2 of its audited consolidated financial statements for the year ended December 31, 2015.

3. SIGNIFICANT ACCOUNTING POLICIES

The condensed interim consolidated financial statements have been prepared in accordance with the accounting policies adopted in the Company's most recent audited 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). The capital of the Company is comprised of:

		June 30, 2016		December 31, 2015
Equity	**$**	**(31,354,352)**	$	57,995,423

As at June 30, 2016, the Company is in a negative equity position. The Company has recognized a contingent liability of $70 million after a jury awarded $70 million on certain trade secret claims made by CardiAQ (see Note 18). For the three and six months ended June 30, 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		**June 30, 2016**		December 31, 2015
Loans and receivables					
Cash and cash equivalents	6	**$**	**36,277,793**	$	55,026,171
Accounts receivable	7		**2,017,973**		1,736,941
		$	**38,295,766**	$	56,763,112
Other financial liabilities					
Accounts payable and accrued liabilities	10	**$**	**5,807,035**	$	3,232,971
		$	**5,807,035**	$	3,232,971

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

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 ("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 55% and 45% of the revenue for six months ended June 30, 2016 (for the year ended December 31, 2015: 58% and 42% respectively). A 10% change in the foreign exchange rates for U.S. and EU currencies will result in a change in revenues of approximately $206,000 and $166,000 respectively for the six months ended June 30, 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 June 30, 2016 by approximately $72,000 and $88,000 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 $379,000 and $24,000 respectively as at June 30, 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 June 30, 2016 by approximately $158,000 (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.

(c) Liquidity risk

As at June 30, 2016, the Company had $36,277,793 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 six months ended June 30, 2016 was $21,953,667. As at June 30, 2016, the Company had a working capital deficit of $35,505,915 as compared to a working capital surplus of $54,274,867 at December 31, 2015. The Company has recognized a contingent liability of $70 million after a jury awarded $70 million on certain trade secret claims made by CardiAQ (see Note 18). Unless the Company is successful in post-trial motions and/or an appeal of the verdict, or otherwise is successful in reducing the amount of the $70 million award, the Company will require significant additional financing in order to pay the damages and to continue to operate its business. There can be no assurance that such financing will be available on favorable terms, or at all. Further to this and in the longer term, the Company is dependent on the profitable commercialization of its products or obtaining additional debt or equity financing to fund ongoing operations until profitability is achieved. The Company monitors its cash flow on a monthly basis and compares actual performance to the budget for the period.

As at June 30, 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 debtor's payment history and performance. The Company does not require collateral from its customers as security for trade accounts receivable but may require certain customers to pay in advance of any work being performed or product being shipped.

The maximum exposure, if all of the Company's customers were to default at the same time is the full carrying value of the trade accounts receivable as at June 30, 2016: $1,594,358 (as at December 31, 2015: $1,393,533). As at June 30, 2016, the Company had $117,024 (as at December 31, 2015: $91,813) of trade accounts receivable that was overdue, according to the customers' credit terms. During the six months ended June 30, 2016 the Company wrote down $4,859 of accounts receivable owed by customers (six months ended June 30, 2015: $nil).

The Company may also have credit risk related to its cash and cash equivalents, and investments with a maximum exposure of $36,277,793 as at June 30, 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.

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

6. CASH AND CASH EQUIVALENTS

		June 30, 2016		December 31, 2015
Cash held in:				
Canadian dollars	**$**	**14,931,221**	$	635,614
U.S. dollars		**3,412,240**		7,104,699
Euros		**301,693**		120,415
Cashable Canadian dollar high interest savings accounts (“HISAs”)		**4,841,818**		8,738,088
Cashable U.S. dollar high interest savings accounts		**12,778,821**		16,752,355
Cashable Canadian dollar guaranteed investment certificate (“GICs”)		**-**		21,675,000
	$	**36,277,793**	$	55,026,171

The HISAs and GICs were 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.

7. ACCOUNTS RECEIVABLE

		June 30, 2016		December 31, 2015
Trade receivables	**$**	**1,594,358**	$	1,393,533
Other receivables		**423,615**		343,408
	$	**2,017,973**	$	1,736,941

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

		June 30, 2016		December 31, 2015
Not past due	**$**	**1,477,334**	$	1,301,720
Past due 0 - 30 days		**113,232**		89,643
30 - 60 days		**3,792**		1,846
60 - 90 days		**-**		324
	$	**1,594,358**	$	1,393,533

All of the Company's trade and other receivables have been reviewed for impairment. During the six months ended June 30, 2016, the Company wrote down $4,859 accounts receivable (six months ended June 30, 2015: $nil).

There was no allowance for doubtful accounts as at June 30, 2016 or as at December 31, 2015 and there was no movement in the allowance for doubtful accounts in either period.

8. INVENTORY

		June 30, 2016		December 31, 2015
Raw materials	**$**	**869,377**	$	492,785
Work in progress		**445,341**		88,856
Finished goods		**264,639**		16,495
	$	**1,579,357**	$	598,136

During the six months ended June 30, 2016 and 2015 the Company did not write down any obsolete inventory.

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

9. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Leasehold improvements	Production equipment	Computer hardware	Computer software	Office equipment	Total
COST								
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)
Balance as at December 31, 2015	**$ 374,766**	**$ 2,200,804**	**$ 118,009**	**$ 1,870,715**	**$ 431,090**	**$ 326,358**	**$ 276,245**	**$ 5,597,987**
Additions during the period	-	81,754	-	299,226	28,767	121,569	-	531,316
Cumulative translation adjustment	24,638	149,294	7,758	126,880	29,991	27,070	18,161	383,792
Balance as at June 30, 2016	**$ 399,404**	**$ 2,431,852**	**$ 125,767**	**$ 2,296,821**	**$ 489,848**	**$ 474,997**	**$ 294,406**	**$ 6,513,095**
ACCUMULATED DEPRECIATION								
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)
Balance as at December 31, 2015	**$ -**	**$ 335,239**	**$ 33,015**	**$ 834,027**	**$ 257,606**	**$ 268,926**	**$ 148,618**	**$ 1,877,431**
Depreciation for the period	-	40,068	25,368	179,909	30,109	58,240	13,286	346,980
Cumulative translation adjustment	-	22,975	2,772	65,517	17,602	18,168	10,087	137,121
Balance as at June 30, 2016	**$ -**	**$ 398,282**	**$ 61,155**	**$ 1,079,453**	**$ 305,317**	**$ 345,334**	**$ 171,991**	**$ 2,361,532**
CARRYING AMOUNTS								
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 June 30, 2016	**$ 399,404**	**$ 2,033,570**	**$ 64,612**	**$ 1,217,368**	**$ 184,531**	**$ 129,663**	**$ 122,415**	**$ 4,151,563**

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

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2016	December 31, 2015
Trade payables	**$ 5,230,176**	$ 2,515,815
Accrued vacation	**334,772**	167,604
Accrued liabilities	**24,983**	221,167
Tax payable	**61,380**	155,169
Other payables	**155,724**	173,216
	$ 5,807,035	$ 3,232,971

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 Number	Common Shares Amount	Contributed Surplus
Balance, January 1, 2015	**53,842,344**	**$ 89,357,061**	**$ 17,632,809**
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	2,268,766	(1,177,864)
Share-based payments	-	-	4,114,165
Balance, December 31, 2015	**66,764,947**	**$ 161,505,037**	**$ 20,569,110**
Issued for cash on exercise of options	101,398	152,976	(77,784)
Share-based payments	-	-	1,230,989
Balance, June 30, 2016	**66,866,345**	**$ 161,658,013**	**$ 21,722,315**

(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.

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

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)
Options outstanding, January 1, 2015	**9,346,389**	**C$**	**2.37**	**2.19**
Granted	1,423,677		8.57	
Exercised	(2,507,603)		0.53	
Forfeited	(127,760)		8.46	
Options outstanding, December 31, 2015	**8,134,703**	**C$**	**3.92**	**2.22**
Options exercisable, December 31, 2015	**6,491,040**	**C$**	**3.15**	**1.78**
Granted	170,061	C$	4.90	
Exercised	(101,398)		1.00	
Forfeited	(68,402)		5.73	
Options outstanding, June 30, 2016	**8,134,964**	**C$**	**3.96**	**1.79**
Options exercisable, June 30, 2016	**6,698,109**	**C$**	**3.33**	**1.37**

The following table lists the options outstanding at June 30, 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	1.56	79,482	1.56
C$0.97-1.45	3,514,500	0.19	3,514,100	0.19
C$2.00-4.94	1,109,467	2.12	870,866	1.83
C$5.00-7.00	2,487,168	3.15	1,845,942	2.90
C$7.00-9.00	443,000	3.88	133,500	3.67
C$10.00-13.00	501,547	3.73	254,219	3.72
	8,134,964		6,698,109	

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$2.00-4.94	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
	8,134,703		6,491,040	

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

11. SHARE CAPITAL (continued)

(c) Stock options (continued)

The weighted average share price at the date of exercise for share options exercised for the six months ended June 30, 2016 was $5.64 (six months ended June 30, 2015: $7.47). During the six months ended June 30, 2016, the Company recorded $1,230,989 as compensation expense for share-based compensation awarded to eligible optionees (six months ended June 30, 2015: $2,320,394). 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	**C$**	**3.02**	C$	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 June 30,		For the six months ended June 30,	
	2016	2015	**2016**	2015
REVENUE				
United States	**$ 552,093**	$ 1,491,675	**$ 1,442,299**	$ 2,507,409
Europe	**1,005,579**	1,421,748	**2,002,505**	2,613,996
Rest of the World	**153,260**	58,961	**272,870**	110,802
	$ 1,710,932	$ 2,972,384	**$ 3,717,674**	$ 5,232,207

Sales to the Company's four largest customers accounted for approximately 40%, 21%, 18% and 5% of the Company's sales for the six months ended June 30, 2016. Sales to the Company's four largest customers accounted for approximately 28%, 25%, 18% and 14% of the Company's sales for the six months ended June 30, 2015.

13. EMPLOYEE BENEFITS EXPENSE

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	**2016**	2015
Salaries and wages	**$ 2,662,465**	$ 2,229,960	**$ 5,029,663**	$ 4,104,362
Pension plan and employment insurance	**165,192**	139,654	**339,630**	288,453
Contribution to defined contribution pension plan	**54,659**	31,482	**106,030**	68,654
Health benefits	**247,752**	190,093	**495,002**	339,748
Cash-based employee expenses	**3,130,068**	2,591,189	**5,970,325**	4,801,217
Share-based payments	**669,405**	1,125,580	**1,230,989**	2,320,394
Total employee expenses	**$ 3,799,473**	$ 3,716,769	**$ 7,201,314**	$ 7,121,611

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

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

	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
COST OF GOODS SOLD				
Depreciation	**$ 57,121**	$ 38,125	**$ 108,325**	$ 72,154
Share-based payments	**19,051**	94,838	**78,429**	128,021
Cash-based employee expenses	**848,925**	740,254	**1,518,315**	1,409,788
Other expenses	**466,611**	942,137	**1,132,283**	1,812,963
	1,391,708	1,815,354	**2,837,352**	3,442,926
EXPENSES				
Selling expenses				
Share-based payments	**$ 43,357**	$ 10,496	**$ 84,038**	$ 20,782
Cash-based employee expenses	**27,986**	-	**55,012**	-
Other expenses	**109,831**	114,982	**206,971**	228,518
	181,174	125,478	**346,021**	249,300
General and administrative expenses				
Depreciation	**39,789**	15,724	**70,416**	29,039
Share-based payments	**230,444**	222,489	**423,537**	873,221
Cash-based employee expenses	**674,518**	567,455	**1,314,088**	982,789
Litigation expenses	**5,793,271**	1,775,461	**9,830,131**	2,256,806
Other expenses	**689,102**	953,913	**1,616,357**	1,719,573
	7,427,124	3,535,042	**13,254,529**	5,861,428
Product development and clinical trials expenses				
Depreciation	**102,587**	53,249	**168,239**	103,134
Share-based payments	**376,553**	797,757	**644,985**	1,298,370
Cash-based employee expenses	**1,578,639**	1,283,480	**3,082,910**	2,408,640
Other expenses	**3,647,256**	2,145,809	**5,891,688**	3,901,544
	5,705,035	4,280,295	**9,787,822**	7,711,688
TOTAL EXPENSES	**$ 13,313,333**	**$ 7,940,815**	**$ 23,388,372**	**$ 13,822,416**
Depreciation per Statements of Cash Flows	**$ 199,497**	**$ 107,098**	**$ 346,980**	**$ 204,327**
Share-based payments per Statements of Cash Flows	**$ 669,405**	**$ 1,125,580**	**$ 1,230,989**	**$ 2,320,394**
Cash-based employee expenses (see Note 13)	**$ 3,130,068**	**$ 2,591,189**	**$ 5,970,325**	**$ 4,801,217**

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

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

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. 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 June 30, **2016**	2015
Year 1	**$ 218,497**	$ 209,753
Year 2	**187,094**	179,718
Year 3	**77,524**	77,519
Year 4	**79,849**	79,843
Year 5	**47,372**	33,835
	$ 610,336	$ 580,668

Lease payments recognized as an expense during the three and six months ended June 30, 2016 amount to $98,684 and $201,743 (three and six months ended June 30, 2015: $58,672 and $115,443).

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 and six months ended June 30, 2016 amounted to 66,856,444 and 66,837,195 shares (three and six months ended June 30, 2015: 66,531,433 and 64,186,202 shares).

	For the three months ended June 30, **2016**	For the three months ended June 30, 2015	For the six months ended June 30, **2016**	For the six months ended June 30, 2015
Weighted average number of common shares	**66,856,444**	66,531,433	**66,837,195**	64,186,202
Loss for the period	**$(83,692,460)**	$ (6,752,338)	**$(94,573,598)**	$(11,713,712)
Basic loss per share	**$ (1.25)**	$ (0.10)	**$ (1.41)**	$ (0.18)

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

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

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 June 30,		For the six months ended June 30,	
	2016	2015	**2016**	2015
Short-term employee benefits				
Employee salaries and bonuses	**$ 304,949**	$ 376,348	**$ 604,346**	$ 716,032
Directors fees	**48,972**	81,998	**112,729**	150,974
Social security and medical care costs	**9,253**	7,221	**22,778**	21,559
	363,174	465,567	**739,853**	888,565
Post-employment benefits				
Contributions to defined contribution pension plan	**3,920**	10,972	**7,717**	20,992
Share-based payments	**64,292**	274,737	**148,233**	1,032,215
Total key management remuneration	**$ 431,386**	$ 751,276	**$ 895,803**	$ 1,941,772

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, a complaint filed by CardiAQ against Neovasc in Germany requesting that Neovasc assign its right to one of its European patent applications to CardiAQ and a class action suit alleging securities fraud filed in the United States District Court for the District of Massachusetts against the Company.

Litigation with CardiAQ

On June 6, 2014, Neovasc was named in 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 breach of contract relating to Neovasc's transcatheter mitral valve technology, including the Tiara.

On May 19, 2016, following a trial in Boston, Massachusetts, a jury found in favor of CardiAQ and awarded $70 million on the trade secret claim for relief, and no damages on the contractual claims for relief. A final judgment will be entered into the Court following briefing that is to be completed in August 2016 and following a hearing on these post-trial motions. One of CardiAQ's post-trial motions seeks an injunction to require the Company to cease Tiara operations for eighteen months. The timing of the final judgment is uncertain and at the Court's discretion. When the Company assesses that it is probable that a present obligation exists at the end of the reporting period and that the possibility of an outflow of economic resources embodying economic benefits is probable, a contingent liability is recognized. The Company has made a contingent liability for $70 million as at June 30, 2016. The Company intends to continue to vigorously defend itself in the litigation with CardiAQ and so the outcome of these matters is inherently uncertain.

Interest may be due on any award granted by the Court. The determination of the interest due, if any, would be the subject of further motions in the Court after a judgment on the award has been entered. 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 contingent liability is recognized and contingent liability disclosure is required. The Company has applied the disclosure exemption and not provided contingent liability disclosure in relation to any interest that may be due as it may seriously prejudice the Company's position in this matter.

In the cause of action relating to patent inventorship, CardiAQ claimed that two individuals should be added as inventors to a Neovasc patent and no judgment has yet been made. The Court will decide the patent inventorship claim, as well as post-trial motions, following briefing that is to be completed in August 2016 and following a hearing on these motions. The timing of the final judgment is uncertain and at the Court's discretion. 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 contingent liability is recognized and contingent liability disclosure is required. The Company has applied the disclosure exemption and not provided contingent liability disclosure in relation to the patent inventorship portion of the litigation with CardiAQ as it may seriously prejudice the Company's position in the dispute.

18. CONTINGENT LIABILITIES (continued)

On April 25, 2016, the Court granted Neovasc's motion for summary judgment on CardiAQ's claim for fraud. On May 27, 2016, the Court granted Neovasc's motion for judgment as a matter of law on the Massachusetts Gen. Law. Ch. 93A claim. When the Company assesses that it is more likely that no present obligation exists at the end of the reporting period and that the possibility of an outflow of economic resources embodying economic benefits is remote, no contingent liability is recognized and no contingent liability disclosure is required.

On June 23, 2014, CardiAQ also filed a complaint against Neovasc in Germany requesting that Neovasc assign its right to one of its European patent applications to CardiAQ. The Court in Munich is expected to render its decision after a hearing, which has been deferred by the Court and is currently scheduled for December 14, 2016. 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 contingent liability is recognized and contingent liability disclosure is required. The Company has applied the disclosure exemption and not provided contingent liability disclosure in relation to the European litigation with CardiAQ as it may seriously prejudice the Company's position in the dispute.

Securities Class Action Lawsuit

On June 6, 2016, an alleged purchaser of Neovasc common shares filed a lawsuit, on behalf of a putative class of purchasers of Neovasc securities, against Neovasc (as well as against Chief Executive Officer, Alexei Marko, and Chief Financial Officer, Christopher Clark) in the United States District Court for the District of Massachusetts concerning alleged violations of the United States securities laws. The case is styled as *Sergio Grobler, individually and on behalf of all others similarly situated v. Neovasc Inc., Alexei Marko, and Christopher Clark*, Case No. 1:16-cv-11038-RGS. The complaint filed in the lawsuit, which principally bases the plaintiff's claims on the Company's prior disclosures regarding the lawsuit filed by CardiAQ in the United States District Court for the District of Massachusetts, does not specify the amount of damages sought. Further, as of August 8, 2016, no class action has been certified by the Court to proceed. The Company and its officers intend to vigorously defend themselves in the litigation and so the outcome of this matter is inherently uncertain. The outcome of this matter is not currently determinable nor is it possible to accurately predict the outcome or quantum of these proceedings to the Company at this time. Until this matter has been resolved by the appropriate courts, the Company cannot give any assurances as to such outcome. When the Company assesses that it is more likely that no present obligation exists at the end of the reporting period and that the possibility of an outflow of economic resources embodying economic benefits is remote, no contingent liability is recognized and no contingent liability disclosure is required.

19. SUBSEQUENT EVENTS

On July 5, 2016 the Company received written notification (the "Notification Letter") from The NASDAQ Stock Market LLC ("Nasdaq") notifying the Company that it is not in compliance with the $1.00 minimum bid price requirement set forth in the Nasdaq Listing Rules. The Company has been provided 180 calendar days, or until January 3, 2017, to regain compliance with Nasdaq Listing Rules. In the event the Company does not regain compliance by January 3, 2017, the Company may be eligible for additional time to regain compliance.

The Company intends to monitor the closing bid price of its common shares between now and January 3, 2017 and intends to cure the deficiency within the prescribed grace period. During this time, the Company's common shares will continue to be listed and trade on the Nasdaq.

The Company's business operations are not affected by the receipt of the Notification Letter. The Company is also listed on the Toronto Stock Exchange and the Notification Letter does not affect the Company's compliance status with such listing.

20. AUTHORIZATION OF FINANCIAL STATEMENTS

The condensed interim consolidated financial statements for the three and six months ended June 30, 2016 (including comparatives) were approved by the audit committee on behalf of the board of directors on August 8, 2016.

(signed) ***Alexei Marko***

Alexei Marko, Director

(signed) ***Steve Rubin***

Steve Rubin, Director