Neovasc Inc.

AMENDED AND RESTATED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 and 2017

(Expressed in U.S. dollars)

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NEOVASC INC.

Amended and Restated Condensed Interim Consolidated Statements of Financial Position

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

	Notes	September 30, 2018 As restated Note 17 (i)	December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents	6	**$ 14,487,483**	$ 17,507,157
Accounts receivable	7	**802,368**	1,334,923
Inventory	8	**190,182**	398,556
Prepaid expenses and other assets	9	**492,932**	802,366
Total current assets		**15,972,965**	20,043,002
Non-current assets			
Restricted cash	10	**464,306**	478,260
Property, plant and equipment	11	**940,283**	1,685,181
Total non-current assets		**1,404,589**	2,163,441
Total assets		**$ 17,377,554**	$ 22,206,443
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12	**$ 4,119,223**	$ 1,844,955
Convertible Note	13	**645,943**	4,261,597
Derivative liability from financing	13	**327,983**	19,997,345
Total current liabilities		**5,093,149**	26,103,897
Non-Current Liabilities			
Convertible Note	13	**27,867,007**	15,745,962
Derivative liability from financing	13	**489,239**	16,831,685
Total non-current liabilities		**28,356,246**	32,577,647
Total liabilities		**$ 33,449,395**	$ 58,681,544
Equity			
Share capital	14	**$ 310,317,605**	$ 171,803,816
Contributed surplus	14	**24,841,510**	23,056,846
Accumulated other comprehensive loss		**(6,875,746)**	(6,643,436)
Deficit		**(344,355,210)**	(224,692,327)
Total equity		**(16,071,841)**	(36,475,101)
Total liabilities and equity		**$ 17,377,554**	$ 22,206,443

Going Concern and Uncertainty (see Note 1b and 5d)
Subsequent Events (see Note 22)

See Accompanying Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements

NEOVASC INC.
Amended and Restated Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three and nine months ended September 30,
(Expressed in U.S. dollars) (Unaudited)

	Notes	For the three months ended September 30, 2018 As restated Note 17 (i)	For the three months ended September 30, 2017	For the nine months ended September 30, 2018 As restated Note 17 (i)	For the nine months ended September 30, 2017
REVENUE					
Reducer	15	**$ 480,540**	$ 334,208	**$ 1,225,709**	$ 842,528
Contract manufacturing and consulting services		**-**	1,040,685	**-**	3,318,861
		480,540	1,374,893	**1,225,709**	4,161,389
COST OF GOODS SOLD		**96,743**	659,686	**272,739**	2,341,017
GROSS PROFIT		**383,797**	715,207	**952,970**	1,820,372
EXPENSES					
Selling expenses	17	**202,947**	253,791	**738,423**	665,341
General and administrative expenses	17	**6,340,747**	1,864,302	**11,023,302**	7,366,234
Product development and clinical trials expenses	17	**3,490,696**	4,422,641	**11,348,342**	13,726,944
		10,034,390	6,540,734	**23,110,067**	21,758,519
OPERATING LOSS		**(9,650,593)**	(5,825,527)	**(22,157,097)**	(19,938,147)
OTHER (EXPENSE)/INCOME					
Interest income		**93,313**	138,613	**147,450**	355,837
Gain on sale of assets		**-**	-	**238,907**	-
Gain/(loss) on foreign exchange		**754**	(8,951,113)	**(114,532)**	(5,661,951)
Unrealized loss on derivative liability and convertible note	13	**(4,536,268)**	-	**(8,270,500)**	-
Realized gain/(loss) on exercise of warrants	13	**887,580**	-	**(43,127,218)**	-
Amortization of deferred loss	13	**(1,377,530)**	-	**(46,201,839)**	-
Interest on damages provision		**-**	(216,593)	**-**	(642,716)
Unrealized gain on damages provision		**-**	10,502,586	**-**	8,463,548
		(4,932,151)	1,473,493	**(97,327,732)**	2,514,718
LOSS BEFORE TAX		**(14,582,744)**	(4,352,034)	**(119,484,829)**	(17,423,429)
Tax expense		**(54,000)**	(343,926)	**(178,054)**	(458,826)
LOSS FOR THE PERIOD		**$ (14,636,744)**	$ (4,695,960)	**$(119,662,883)**	$ (17,882,255)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD					
Exchange difference on translation		**-**	9,390,710	**-**	6,513,152
Unrealized gain on damages provision		**-**	(10,502,586)	**-**	(8,463,548)
Fair market value changes in convertible note due to changes in own credit risk		**346,327**	-	**(232,310)**	-
		346,327	(1,111,876)	**(232,310)**	(1,950,396)
LOSS AND OTHER COMPREHENSIVE LOSS FOR THE PERIOD		**$ (14,290,417)**	$ (5,807,836)	**$(119,895,193)**	$ (19,832,651)
LOSS PER SHARE					
Basic and diluted loss per share	19	**$ (0.78)**	$ (5.95)	**$ (10.59)**	$ (22.68)

See Accompanying Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Amended and Restated 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, 2017		**$ 168,712,673**	**$ 22,301,437**	**$ (4,693,040)**	**$(201,783,606)**	**$ (15,462,536)**
Issue of share capital on exercise of options		469,948	(234,995)	-	-	234,953
Share-based payments	16	-	2,078,675	-	-	2,078,675
Transactions with owners during the period		469,948	1,843,680	-	-	2,313,628
Loss for the period		-	-	-	**(17,882,255)**	**(17,882,255)**
Other comprehensive loss for the period		-	-	**(1,950,396)**	-	**(1,950,396)**
Balance at September 30, 2017		**$ 169,182,621**	**$ 24,145,117**	**$ (6,643,436)**	**$(219,665,861)**	**$ (32,981,559)**
Balance at January 1, 2018		**$ 171,803,816**	**$ 23,056,846**	**$ (6,643,436)**	**$(224,692,327)**	**$ (36,475,101)**
Issue of share capital on exercise of options	14(b)	88,918	(88,918)	-	-	-
Issue of share capital on exercise of warrants	14(b)	131,748,748	-	-	-	131,748,748
Issue of share capital on conversion of notes	14(b)	6,676,123	-	-	-	6,676,123
Share-based payments	16	-	1,873,582	-	-	1,873,582
Transactions with owners during the period		138,513,789	1,784,664	-	-	140,298,453
Loss for the period (as restated)		-	-	-	**(119,662,883)**	**(119,662,883)**
Other comprehensive loss for the period		-	-	**(232,310)**	-	**(232,310)**
Balance at September 30, 2018 (as restated)		**$ 310,317,605**	**$ 24,841,510**	**$ (6,875,746)**	**$(344,355,210)**	**$ (16,071,841)**

See Accompanying Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Amended and Restated Condensed Interim Consolidated Statements of Cash Flows

For the three and nine months ended September 30,

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

	Notes	For the three months ended September 30, 2018 As restated Note 17 (i)	For the three months ended September 30, 2017	For the nine months ended September 30, 2018 As restated Note 17 (i)	For the nine months ended September 30, 2017
OPERATING ACTIVITIES					
Loss for the period		**$ (14,636,744)**	$ (4,695,960)	**$ (119,662,883)**	$(17,882,255)
Adjustments for:					
Depreciation	17	**97,835**	142,034	**281,911**	387,762
Share-based payments	16	**1,603,317**	343,155	**1,873,582**	2,078,675
Damages provision		**-**	216,593	**-**	642,716
Accrued employee termination expenses		**156,723**	-	**517,382**	-
Collaboration and services expenses	17	**1,379,790**	-	**1,379,790**	-
Gain on sale of assets		**-**	-	**(238,907)**	-
Unrealized loss on derivative liability and convertible note	13	**4,536,268**	-	**8,270,500**	-
Realized (gain)/loss on exercise of warrants	13	**(887,580)**	-	**43,127,218**	-
Amortization of deferred loss	13	**1,377,530**	-	**46,201,839**	-
Write-down accounts receivable		**489,449**	-	**489,449**	40,000
Income tax expense		**54,000**	345,062	**178,054**	461,097
Interest income		**(93,313)**	(138,613)	**(147,450)**	(355,837)
		(5,922,725)	(3,787,729)	**(17,729,515)**	(14,627,842)
Net change in non-cash working capital items:					
Accounts receivable		**(419,173)**	178,735	**43,106**	1,809,123
Inventory		**(23,161)**	(29,795)	**208,374**	(247,403)
Prepaid expenses and other assets		**900,988**	(91,780)	**309,434**	(481,560)
Accounts payable and accrued liabilities		**(38,396)**	(204,279)	**377,096**	(577,616)
		420,258	(147,119)	**938,010**	502,544
Income tax and Interest paid and received:					
Income tax paid		**(54,000)**	8,236	**(178,054)**	112,067
Interest received		**93,313**	(114,616)	**147,450**	(229,516)
		39,313	(106,380)	**(30,604)**	(117,449)
Net cash applied to operating activities		**(5,463,154)**	(4,041,228)	**(16,822,109)**	(14,242,747)
INVESTING ACTIVITES					
(Increase)/Decrease in restricted cash		**(7,703)**	-	**13,954**	-
Increase in cash held in escrow		**-**	(131,258)	**-**	(321,442)
Purchase of property, plant and equipment	11	**(122,917)**	(55,589)	**(163,716)**	(445,930)
Proceeds from sale of assets		**-**	-	**865,610**	-
Net cash (applied to)/ received from investing activities		**(130,620)**	(186,847)	**715,848**	(767,372)
FINANCING ACTIVITIES					
Proceeds from exercise of warrants	14(b)	**-**	-	**13,086,587**	-
Proceeds from exercise of options		**-**	10,486	**-**	234,953
Net cash from financing activities		**-**	10,486	**13,086,587**	234,953
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(5,593,774)**	(4,217,589)	**(3,019,674)**	(14,775,166)
CASH AND CASH EQUIVALENTS					
Beginning of the period		**20,081,257**	11,580,940	**17,507,157**	22,954,571
Exchange difference on cash and cash equivalents		**-**	(1,095,238)	**-**	(1,911,292)
End of the period		**$ 14,487,483**	$ 6,268,113	**$ 14,487,483**	$ 6,268,113
Represented by:					
Cash	6	**14,487,483**	6,268,113	**14,487,483**	6,268,113
		$ 14,487,483	$ 6,268,113	**$ 14,487,483**	$ 6,268,113

See Accompanying Notes to the Amended and Restated Condensed Interim Consolidated Financial Statements

1. INCORPORATION AND GOING CONCERN

(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 amended and restated condensed interim consolidated financial statements of the Company as at September 30, 2018 and for the three and nine months ended September 30, 2018 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 common shares (the "Common Shares") are listed on the Toronto Stock Exchange (TSX:NVCN) 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 September 30, 2018, the Company had approximately $14.49 million in cash and cash equivalents, sufficient cash for approximately eight months of operations. The Company will need to obtain additional debt or equity financing in the next 12 months to fund ongoing operations. Given the current nature of the Company's capital structure, the Company can give no assurance that it will be able to obtain the additional funds needed, on terms agreeable to the Company, or at all. These circumstances indicate the existence of material uncertainty and cast substantial doubt about the Company's ability to continue as a going concern.

These amended and restated 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 obtain additional capital in the future and the Company's ability to continue as a going concern be impaired, material adjustments may be necessary to these amended and restated condensed interim consolidated financial statements.

c) Share Consolidation (reverse stock split)

On September 18, 2018, the Company effected a share consolidation (reverse stock split) of its issued and outstanding Common Shares on the basis of one post-consolidation Common Share for every one hundred pre-consolidation Common Shares. All references in these amended and restated condensed interim consolidated interim financial statements to Common Shares and options have been retroactively adjusted to reflect the share consolidation. The number of warrants and aggregate principle amount of Notes (as defined below) were not affected by the consolidation, but the Common Shares issuable upon exercise of the warrants or conversion of the Notes will be adjusted proportionally to the share consolidation ratio.

2. BASIS OF PREPARATION

(a) Statement of compliance with IFRS

These amended and restated 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"), using the accounting policies consistent with the Company's annual consolidated financial statements for the year ended December 31, 2017. These amended and restated condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2017 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, 2017.

The results for the three and nine months ended September 30, 2018 may not be indicative of the results that may be expected for the full year or any other period.

The amended and restated condensed interim consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries, Neovasc Medical Inc., Neovasc Tiara Inc., Neovasc GmbH, Neovasc (US) Inc., Neovasc Management 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)

2. BASIS OF PREPARATION (continued)

(b) Presentation of financial statements

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

(c) Restatement

The Company has amended and restated the condensed interim financial statements for the three and nine months ended September 30, 2018 as the Company did not accrue for the future payments to be made under the terms of collaboration and settlement agreement with the University of Pennsylvania as press released on August 3, 2018. The impact of the adjustment is to accrue for $1,379,790 of additional future collaboration and settlement payments in the current period increasing the loss for the period and the accrued liabilities as at September 30, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

The amended and restated condensed 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, 2017, except for the following:

Financial Instruments (IFRS 9)

The Company adopted IFRS 9 on January 1, 2018 in accordance with the transitional provisions of the standard. IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities and supersedes the guidance relating to the classification and measurement of financial instruments in IAS 39, Financial Instruments: Recognition and Measurement (IAS 39).

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: those measured at fair value through profit and loss, those measured at fair value through other comprehensive income and those measured at amortized cost. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change relating to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

The Company has assessed the classification and measurement of financial assets and financial liabilities under IFRS 9 and have summarized the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 in the following table:

	Measurement Category	
	Original (IAS 39)	**New (IFRS 9)**
Financial assets:		
Cash and cash equivalents, cash held in escrow	Amortized cost	Amortized cost
Trade receivables	Amortized cost	Amortized cost
Financial liabilities:		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Derivative liability from financing	Fair value through profit or loss	Fair value through profit or loss
Convertible Note	Fair value through profit or loss	Fair value through profit or loss or OCI (for own credit risk)

As a result of the change in measurement categories for the convertible note, an adjustment of $232,310 for the nine months ended on September 30, 2018 has been made to opening retained earnings and accumulated other comprehensive income to reclassify the change in fair value associated with the Company's own credit risk. There has been no other change in the carrying value of our financial instruments or to previously reported figures as a result of changes to the measurement categories in the table noted above.

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. There is a simplified approach where expected credit losses can be estimated and recognized upon initial recognition of the receivables. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company has reviewed expected credit losses on trade receivables on transition to IFRS 9. The Company also implemented a process for managing and estimating provisions relating to trade receivables going forward under IFRS 9. For trade accounts receivables, the Company has applied the simplified approach for determining expected credit losses which requires us to determine the lifetime expected losses for all trade receivables.

The expected lifetime credit loss provision for trade receivables is based on historical counterparty default rates and adjusted for relevant forward-looking information, when required. As the majority of customers are considered to have low default risk and the Company does not extend credit to customers with high default risk, historical default rates are low and the lifetime expected credit loss allowance for trade receivables is nominal as at January 1, 2018 and September 30, 2018. Accordingly, the Company did not record an adjustment relating to the implementation of the expected credit loss model for trade receivables.

Revenue (IFRS 15)

The IASB issued IFRS 15 Revenue from Contracts with Customers, a new standard for the recognition of revenue, which replaces IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. IFRS is effective for annual periods beginning on or after January 1, 2018. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

The standard is required to be adopted either retrospectively or using a modified retrospective approach. In accordance with the transition provisions in IFRS 15, the Company has adopted the new standard using the modified retrospective method; the cumulative effect of initially applying the standard is recognized as an adjustment to the opening balance of retained earnings as of January 1, 2018. Comparative prior year periods are not restated. The adoption of IFRS 15 did not result in any changes in the timing of revenue recognition for the Company’s goods and services.

Effective January 1, 2018, upon adoption of IFRS 15 Revenue from Contracts with Customers, the Company recognizes revenue for services rendered when the performance obligations have been completed, when control of the services transfer to the customer, when the services performed have been accepted by the customer and for example, when collectability is reasonably assured. The consideration for services rendered is measured at the fair value of the consideration received and allocated based on the Company’s standalone selling prices. The standalone selling prices are determined based on the agreed upon list prices at which the Company sells its services in separate transactions. Payment terms with customers vary by country and contract. Standard payment terms are 60 days from invoice date.

Revenue for the sale of the Reducer is recognized when control or ownership of the product is transferred to the customer and collectability is reasonably assured.

Leases (IFRS 16)

IFRS 16 Leases will replace IAS 17 Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases applying IAS 17. Leases are ‘capitalized’ by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made overtime, a company will also recognize a financial liability representing its obligation to make future lease payments. The IASB has set the effective date to annual periods beginning on or after January 1, 2019. The Company has not early adopted this standard and is currently evaluating any potential impact.

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 the convertible 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, new units or new debt (secured, unsecured, convertible and/or other types of available debt instruments). For the nine months ended September 30, 2018 and 2017 there were no changes in the Company’s capital management policy.

(Expressed in U.S. dollars)

4. MANAGING CAPITAL (continued)

The capital of the Company is comprised of:

	September 30, 2018	December 31, 2017
Convertible Note	**$ 28,512,950**	$ 20,007,559
Equity (as restated)	**(16,071,841)**	(36,475,101)
Capital (as restated)	**$ 12,441,109**	$ (16,467,542)

5. FINANCIAL RISK MANAGEMENT

(a) Fair value estimation

The fair value hierarchy establishes three levels to classify fair value measurements based upon the observability of significant inputs used in the valuation techniques. The three levels of the fair value hierarchy are described below:

Level 1 | Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 | Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3 | Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs)

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy as at September 30, 2018 and December 31, 2017. As required by IFRS 13, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

As at September 30, 2018:

	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss				
Convertible Note	$ -	$ -	$ 28,512,950	$ 28,512,950
Derivative financial liabilities	$ -	$ -	$ 817,222	$ 817,222

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

	Note	September 30, 2018	December 31, 2017
Loans and receivables			
Cash and cash equivalents	6	**$ 14,487,483**	$ 17,507,157
Accounts receivable	7	**802,368**	1,334,923
Restricted cash	10	**464,306**	478,260
		$ 15,754,157	$ 19,320,340
Other financial liabilities			
Accounts payable and accrued liabilities (as restated)	12	**$ 4,119,223**	$ 1,844,955
Financial liabilities at fair value through profit and loss			
Convertible Note (current)	13	**645,943**	4,261,597
Derivative liability from financing (current)	13	**327,983**	19,997,345
Convertible Note (non-current)	13	**27,867,007**	15,745,962
Derivative liability from financing (non-current)	13	**489,239**	16,831,685
		$ 33,449,395	$ 58,681,544

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

5. FINANCIAL RISK MANAGEMENT (continued)

(b) Foreign exchange risk

A portion of the Company's revenues are derived from product sales in Europe, denominated in Euros. 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. The Euro represents approximately 22% of the revenue for the nine months ended September 30, 2018 (nine months ended September 2017: U.S. dollar and Euro: 37% and 63%, respectively). A 10% change in the foreign exchange rates for the Euro for foreign currency denominated accounts receivable will impact net income as at September 30, 2018 by approximately $10,967 (as at September 30, 2017: U.S. dollar and Euro: $65,000 and $65,000, respectively), and a similar change in foreign currency denominated accounts payable, which are denominated in Canadian dollars and Euros will impact net income by approximately $22,482 and $41,711, respectively, as at September 30, 2018 (as at September 30, 2017, U.S. dollar and Euro: $7,000 and $109,000, respectively). The Company does not hedge its foreign exchange risk.

(c) Interest rate risk

The Company is not exposed to material cash flow interest rate risk on fixed rate cash balances, and short-term accounts receivable and accounts payable that do not accrue interest.

(d) Liquidity risk

As at September 30, 2018, the Company had $14,487,483 in cash and cash equivalents as compared to cash and cash equivalents of $17,507,157 at December 31, 2017. 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. The Company believes it has sufficient funds to fund operations for approximately eight months at the current burn rate. The Company may obtain additional debt or equity financing during that period. 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.

(e) 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, 2018 is $801,530 (as at December 31, 2017: $1,201,292). As at September 30, 2018, the Company had $303,200 (as at December 31, 2017: $588,282) of trade accounts receivable that were overdue, according to the customers' credit terms. During the three and nine months ended September 30, 2018 the Company wrote down $489,449 and $nil respectively, of accounts receivable owed by customers (three and nine months ended September 2017: $nil and $40,000, respectively).

The Company may also have credit risk related to its cash and cash equivalents and restricted cash, with a maximum exposure of $14,951,789 as at September 30, 2018 (as at December 31, 2017: $17,985,417). The Company minimizes its risk to cash and cash equivalents by maintaining the majority of its cash and cash equivalents with Canadian Chartered Banks.

(Expressed in U.S. dollars)

6. CASH AND CASH EQUIVALENTS

	September 30, 2018	December 31, 2017
Cash held in:		
United States dollars	$ 13,665,818	$ 16,989,119
Canadian dollars	381,014	70,112
Euros	440,651	447,926
	$ 14,487,483	$ 17,507,157

7. ACCOUNTS RECEIVABLE

	September 30, 2018	December 31, 2017
Trade accounts receivable	$ 801,530	$ 1,201,292
Other accounts receivable	838	133,631
	$ 802,368	$ 1,334,923

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

	September 30, 2018	December 31, 2017
Not past due	$ 528,584	$ 693,010
Past due 0 - 30 days	54,600	255,348
30 - 60 days	-	79,600
60 - 90 days	-	4,334
90 – 120 days	-	139,000
Over 120 days	248,600	110,000
Loss Allowance	(30,254)	(80,000)
	$ 801,530	$ 1,201,292

All of the Company's trade and other receivables have been reviewed for impairment. During the three and nine months ended September 30, 2018, the Company wrote off $489,449 and $nil, respectively of accounts receivable (three and nine months ended September 2017: $nil and $40,000, respectively).

8. INVENTORY

	September 30, 2018	December 31, 2017
Raw materials	$ 175,063	$ 175,487
Work in progress	-	171,599
Finished goods	15,119	51,470
	$ 190,182	$ 398,556

During the three and nine months ended September 30, 2018 and 2017 the Company did not write down any inventory. During the three and nine months ended September 30, 2018, $96,743 and $272,739, respectively, of inventory was expensed in cost of goods sold (three and nine months ended September 2017: $71,531 and $428,582, respectively).

9. PREPAID EXPENSES AND OTHER ASSETS

	September 30, 2018	December 31, 2017
Prepaid insurance	$ 178,895	$ 125,043
Deposits on rental agreements	273,637	308,492
Retainers for professional services	7,832	324,062
Other prepaid expenses and other assets	32,568	44,769
	$ 492,932	$ 802,366

10. RESTRICTED CASH

	September 30, 2018	December 31, 2017
Restricted cash	**$ 464,306**	$ 478,260

Restricted cash represents a C$600,000 security held by a Canadian Chartered Bank as a guarantee for the Company's same day electronic processing facility and corporate credit card facility.

(Expressed in U.S. dollars)

11. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Leasehold improvements	Production & development equipment	Computer hardware	Computer software	Office equipment	Total
COST								
Balance at January 1, 2017	$ **231,901**	$ **407,555**	$ **38,648**	$ **1,388,117**	$ **429,147**	$ **425,142**	$ **284,771**	$ **3,205,281**
Additions during the year	-	-	127,181	146,388	77,518	145,424	9,156	505,667
Cumulative translation adjustment	17,592	30,916	4,109	115,223	37,257	41,707	22,158	268,962
Balance at December 31,2017	$ **249,493**	$ **438,471**	$ **169,938**	$ **1,649,728**	$ **543,922**	$ **612,273**	$ **316,085**	$ **3,979,910**
Additions during the period	-	-	-	122,917	-	40,799	-	163,716
Disposals during the period	(249,493)	(438,471)	-	-	-	-	-	(687,964)
Balance as at September 30, 2018	$ **-**	$ **-**	$ **169,938**	$ **1,772,645**	$ **543,922**	$ **653,072**	$ **316,085**	$ **3,455,662**
ACCUMULATED DEPRECIATION								
Balance at January 1, 2017	$ **-**	$ **34,900**	$ **26,750**	$ **683,803**	$ **297,199**	$ **397,476**	$ **179,518**	$ **1,619,646**
Depreciation for the year	-	15,484	35,702	254,794	64,166	140,652	23,747	534,545
Cumulative translation adjustment	-	3,179	3,964	60,347	24,730	33,891	14,427	140,538
Balance at December 31, 2017	$ **-**	$ **53,563**	$ **66,416**	$ **998,944**	$ **386,095**	$ **572,019**	$ **217,692**	$ **2,294,729**
Depreciation for the period	-	7,698	17,579	152,574	35,511	53,790	14,759	281,911
Disposals during the period	-	(61,261)	-	-	-	-	-	(61,261)
Balance as at September 30, 2018	$ **-**	$ **-**	$ **83,995**	$ **1,151,518**	$ **421,606**	$ **625,809**	$ **232,451**	$ **2,515,379**
CARRYING AMOUNTS								
As at December 31, 2017	$ **249,493**	$ **384,908**	$ **103,522**	$ **650,784**	$ **157,827**	$ **40,254**	$ **98,393**	$ **1,685,181**
As at September 30, 2018	$ **-**	$ **-**	$ **85,943**	$ **621,127**	$ **122,316**	$ **27,263**	$ **83,634**	$ **940,283**

(Expressed in U.S. dollars)

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		September 30, 2018		December 31, 2017
Trade payables	**$**	**1,462,748**	$	1,256,795
Accrued liabilities (as restated)		**1,880,451**		346,984
Accrued vacation		**153,973**		157,198
Accrued employee termination expenses		**517,382**		-
Other accounts payable		**104,669**		83,978
	$	**4,119,223**	$	1,844,955

13. DERIVATIVE FINANCIAL LIABILITY AND CONVERTIBLE NOTE

(a) Derivative Financial Liabilities

On November 17, 2017, Neovasc completed an underwritten public offering (the “Public Transaction”) of 6,609,588 Series A units (the “Series A Units”) and 19,066,780 Series B units (the “Series B Units”) of the Company, at a price of $1.46 per Unit for gross proceeds of $37,487,497 before deducting the underwriting discounts and commissions and other estimated offering costs.

Each Series A Unit was comprised of:
(i) one Common Share
(ii) one Series A Common Share purchase warrant of the Company at an exercise price of $1.61 per Series A Warrant Share for a period of five years following issuance (each, a "Series A Warrant"),
(iii) one Series B Common Share purchase warrant of the Company at an exercise price of $1.61 per Series B Warrant Share for a period of two years following issuance (each, a "Series B Warrant"); and
(iv) 0.40 Series C Warrant of the Company to purchase a unit at an exercise price of $1.46 per unit for a period of two years following issuance (each, a "Series C Unit") comprised of one Common Share, one Series A Warrant and one Series B Warrant.

Each Series B Unit was comprised of:
(i) either one Common Share or one Series D Common Share purchase warrant of the Company (each, a "Series D Warrant") at an exercise price of $1.46 per Series D Warrant Share, all of which were be pre-funded except for a nominal exercise price of $0.01 per Series D Warrant Share for a period of five years following issuance,
(ii) one Series A Warrant,
(iii) one Series B Warrant,
(iv) 0.40 Series C Warrant, and
(v) 1.1765 Series F Common Share purchase warrant of the Company at an exercise price of $1.61 per Series F Warrant Share for a period of two years following issuance (each, a "Series F Warrant").

154,930 Common Shares and 3,573,830 Series D Warrants were issued as part of the Series B Unit. Since initial issuance and during the period up to September 30, 2018, all of the 3,573,830 Series D Warrants were exercised for gross proceeds of $35,738 and 35,738 Common Shares were issued from treasury.

All the warrants include various price adjustment clauses, some of which cause the number of shares to be issued upon exercise to be variable, and therefore do not meet the fixed for fixed test under IAS 32 – Financial instruments; presentation (see Note 13 for further disclosure of the terms of the warrants). Accordingly, the warrants have been accounted for as derivative financial liabilities and measured at fair value through profit and loss (“FVTPL”). The fair values of the warrants were calculated using a binomial option pricing model and have been classified as level 3 in the fair value hierarchy.

The total fair value of the warrants issued in connection with the Public Transaction, together with the Series E Warrants (as defined below) issued in connection with the Private Transaction (as defined below), was $89,470,273 which exceeded the transaction price giving rise to a loss of $45,132,259. Since the fair values of the derivatives are not determined using a valuation that only uses data from observable markets, the loss on initial recognition has been deferred and will be recognized in income over the expected term of the instruments on a straight-line basis depending on the term of the warrants.

13. DERIVATIVE FINANCIAL LIABILITY AND CONVERTIBLE NOTE (continued)

(b) Convertible Note

On November 17, 2017, the Company also completed a brokered private placement (the “Private Transaction” and together with the Public Transaction the “2017 Financings”) for the sale of $32,750,000 aggregate principal amount of senior secured convertible notes of the Company (the "Notes") and Series E warrants (the "Series E Warrants") to purchase one Common Share per Series E Warrant for gross proceeds of $27,837,500.

The Notes were issued with an original issue price of $850 per $1,000 principal amount of note. The Notes have an 18-month term and carry an interest rate of 0.0% per annum (increasing to 15% upon an event of default) from the closing date of the Private Transaction. On September 12, 2018, the Company and the holders of Notes amended certain terms of the Notes, including a one-year extension of the maturity date of the Notes from May 17, 2019 until May 17, 2020 and certain other amendments. To review the amendments, see the Material Change Report, form of Lockup and Leak-Out Agreement and form of Waiver Agreement filed on SEDAR at www.sedar.com and furnished to the SEC on Form 6-K at www.sec.gov on September 12, 2018. Upon any event of a default, the interest rate applicable to the Notes would automatically be increased to 15% per annum. Interest on the Notes, as applicable, will commence accruing on the date of issue, will be computed on the basis of a 360-day year and twelve 30-day months and became payable in cash on January 1, 2018 and on the first day of each calendar quarter thereafter up to, and including, the maturity date.

The conversion option contained within the Notes contains similar price adjustment characteristics to certain of the warrants, which precludes the Notes from being recognized within equity. The Notes contain a future-priced conversion mechanism that allows the holder of a Note to replace the conversion price then in effect with a price (the "Alternate Conversion Price") that is 85% of the lowest volume weighted average price ("VWAP") of the Common Shares during the ten consecutive trading day period ending and including the date of delivery of the applicable conversion notice. Further, with effect from and after 5:00 p.m. (New York City time) on August 17, 2018, the conversion price of the Notes may also be adjusted to be the lower of (x) the then in effect conversion price and (y) the greater of (i) the amount in U.S. dollars equal to the VWAP for the Common Shares on August 17, 2018 and (ii) $0.50. The Notes are also subject to full ratchet anti-dilution provisions in certain circumstances.

Accordingly, the Company has elected to measure the Notes at FVTPL. The Series E Warrants are also classified as derivative financial liabilities and measured at FVTPL (see Note 14 for further disclosure of the terms of the Series E Warrants). The fair values of the warrants were calculated using a binomial option pricing model and have been classified as level 3 in the fair value hierarchy.

The fair value of the convertible debt was $26,100,900 which exceeded the transaction price giving rise to a loss of $5,113,917. Since the fair value of the convertible debt is not determined using a valuation that only uses data from observable markets, the loss on initial recognition has been deferred and will be recognized in income over the expected term of the instrument. As at September 30, 2018 the loss on initial recognition has been fully amortized.

(c) Warrants and Convertible Notes Model

The warrants were accounted for based on the level 3 fair value estimate of Series A Warrants, Series B Warrants, Series C Warrants, Series D Warrants, Series E Warrants and Series F Warrants by using a binomial option pricing model.

The Notes were accounted for based on the level 3 fair value estimate of the notes based on a binomial tree model.

Key assumptions used in the model at initial recognition and as at September 30, 2018 are summarized below:

Valuation Date	November 17, 2017	December 31, 2017	**September 30, 2018**
Price of Common Shares	$ 0.8727	$ 0.6000	**$ 2.72**
Dividend Yield	0%	0%	**0%**
Historical volatility of Common Shares	122.99%	121.70%	**126.40%**
Historical volatility of index	14.28%	14.43%	**14.87%**
Volatility input	68.63%	68.07%	**70.64%**
Risk-free rate	2.08%	2.20%	**3.01%**
Credit spread	32.63%	34.24%	**32.54%**

(Expressed in U.S. dollars)

13. DERIVATIVE FINANCIAL LIABILITY AND CONVERTIBLE NOTE (continued)

(c) Warrants and Convertible Notes Model (continued)

The carrying amounts for the derivative financial liabilities are as follows:

	Series A Units	Series B Units	Series E Warrants	**Total**
Fair value, November 17, 2017	$ 13,139,650	$ 67,810,835	$ 8,519,788	**$ 89,470,273**
Add:				
Deferred loss	(7,054,787)	(36,408,201)	(1,669,271)	**(45,132,259)**
Amortization of deferred loss	390,379	2,067,557	41,732	**2,499,668**
Less:				
Fair value adjustment on exercised warrants	-	(511,122)	-	**(511,122)**
Exercise of Series D Warrants (1,874,989)	-	(1,108,306)	-	**(1,108,306)**
Fair value adjustment, December 31, 2017	(1,542,457)	(2,911,914)	(3,934,853)	**(8,389,224)**
Balance, Derivative financial liability December 31, 2017	$ 4,932,785	$ 28,938,849	$ 2,957,396	**$ 36,829,030**
Add:				
Amortization of deferred loss	1,951,426	22,346,182	1,380,487	**$ 25,678,096**
Less:				
Exercise of 1,698,841 Series D Warrants (Note 14)	-	(1,004,185)	-	**(1,004,185)**
Exercise of 11,170,788 Series B Warrants (Note 14)	(303,919)	(14,048,309)	-	**(14,352,228)**
Exercise of 21,041,660 Series F Warrants (Note 14)	-	(27,034,325)	-	**(27,034,325)**
Fair value adjustment, March 31, 2018	1,756,803	303,336	(3,817,773)	**(1,757,604)**
Balance, Derivative financial liability March 31, 2018	$ 8,337,095	$ 9,501,579	$ 520,111	**$ 18,358,784**
Add:				
Amortization of deferred loss	4,388,778	11,560,726	230,645	**16,180,149**
Less:				
Exercise of 14,505,580 Series B Warrants (Note 14)	(11,614,224)	(14,820,745)	-	**(26,434,969)**
Exercise of 8,951,780 Series C Warrants (Note 14)	(833,987)	(3,262,347)	-	**(4,096,335)**
Exercise of 1,389,946 Series F Warrants (Note 14)	-	(2,532,855)	-	**(2,532,855)**
Fair value adjustment, June 30, 2018	(22,391)	(6,916)	(212,690)	**(241,997)**
Balance, Derivative financial liability June 30, 2018	$ 255,271	$ 439,441	$ 538,066	**$ 1,232,778**
Add:				
Amortization of deferred loss	42,921	38,234	841	**81,996**
Fair value adjustment, September 30, 2018	(77,185)	(224,805)	(192,564)	**(497,554)**
Balance, Derivative financial liability September 30, 2018	$ 221,009	$ 249,870	$ 346,343	**$ 817,222**
Derivative financial liability, current				**$ 327,983**
Derivative financial liability, non-current				**$ 489,239**

(Expressed in U.S. dollars)

13. DERIVATIVE FINANCIAL LIABILITY AND CONVERTIBLE NOTE (continued)

(c) Warrants and Convertible Notes Model (continued)

The carrying amounts for the Convertible Notes are as follows:

		Convertible Notes
Fair value, November 17, 2017	$	26,100,900
Add:		
Deferred loss		(5,113,917)
Amortization of deferred loss		852,319
Fair value adjustment, December 31, 2017		(1,831,743)
Balance, Convertible Notes December 31, 2017	$	20,007,559
Add:		
Amortization of deferred loss		1,704,639
Fair value adjustment, March 31, 2018		5,681,010
Balance, Convertible Notes March 31, 2018	$	27,393,208
Add:		
Amortization of deferred loss		1,261,424
Less:		
Exercise of 5,567,500 Convertible Notes (Note 14)		(5,094,263)
Fair value adjustment, June 30, 2018		631,449
Balance, Convertible Notes June 30, 2018	$	24,191,819
Add:		
Amortization of deferred loss		1,295,534
Less:		
Exercise of 1,772,500 Convertible Notes (Note 14)		(1,661,896)
Fair value adjustment, September 30, 2018		4,687,493
Balance, Convertible Notes September 30, 2018	$	28,512,950
Convertible Notes, current	$	645,943
Convertible Notes, non-current	$	27,867,007

(Expressed in U.S. dollars)

14. 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

All share and per share amounts have been adjusted to retroactively reflect the impact of the September 18, 2018 reverse stock split on a 1 for 100 basis.

	Common Shares Number	Common Shares Amount	Contributed Surplus
Balance, January 1, 2017	**786,834**	**$ 168,712,673**	**$ 22,301,437**
Common Shares issued from Series A Units and Series B Units (i)	221,025	-	-
Common Shares issued from exercise of Series D Warrants (ii)	18,750	1,127,057	-
Common Shares issued for cash on exercise of options	2,547	1,964,086	(1,729,134)
Share-based payments	-	-	2,484,543
Balance, December 31, 2017	**1,029,156**	**$ 171,803,816**	**$ 23,056,846**
Common Shares issued from exercise of Series B Warrants (iii)	12,742,437	74,055,110	-
Common Shares issued from exercise of Series F Warrants (iv)	2,957,397	43,602,857	-
Common Shares issued from exercise of Series C Warrants (v)	89,518	13,069,598	-
Common Shares issued from exercise of Series D Warrants (vi)	16,988	1,021,183	-
Common Shares issued from exercise of Convertible Notes (vii)	2,623,431	6,676,123	-
Common Shares issued for cash on exercise of options	503	88,918	(88,918)
Share-based payments	-	-	1,873,582
Balance, September 30, 2018	**19,459,430**	**$ 310,317,605**	**$ 24,841,510**

(i) On November 17, 2017, Neovasc completed an underwritten public offering of 6,609,588 Series A Units and 19,066,780 Series B Units, at a price of $1.46 per Unit for gross proceeds of $37,487,497. No amount has been recognized with respect to the Common Shares within equity because the fair value of the derivative instruments issued (being the warrants which form part of the units issued) exceeded the cash proceeds received.

(ii) On December 27, 2017, 1,874,989 of the Series D Warrants that were issued as part of the Series B Units were exercised for cash proceeds of $18,750. In addition, the fair value of the related derivative liability of $1,108,307 (see Note 13) was recognized within equity upon exercise.

(iii) During the nine months ended September 30, 2018, 12,742,437 Common Shares were issued on the exercise of 34,628,148 Series B Warrants. The total fair value of the Common Shares issued at the dates of exercise was $74,055,110. A realized loss of $33,267,912 was recognized in the consolidated statement of loss during the nine months ended September 30, 2018 as the related derivative financial liability of $40,787,197 (see Note 13) was derecognized at the dates of exercise.

(iv) During the nine months ended September 30, 2018, 2,957,397 Common Shares were issued on the exercise of the 22,431,506 Series F Warrants. The total fair value of the Common Shares issued at the dates of exercise was $43,602,857. A realized loss of $14,035,677 was recognized in the consolidated statement of loss during the nine months ended September 30, 2018 as the related derivative financial liability of $29,567,180 (see Note 13) was derecognized at the dates of exercise.

(Expressed in U.S. dollars)

14. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued)

(v) During the nine months ended September 30, 2018, of the 10,273,972 Series C Warrants initially granted, 8,951,780 were exercised for 89,518 Common Shares, 89,518 Series A Warrants and 89,518 Series B Warrants and cash proceeds of $13,069,598. A realized gain of $4,096,335 was recognized in the consolidated statement of loss during the nine months ended September 30, 2018 as the related derivative financial liability of $4,096,335 (see Note 13) was derecognized at the dates of exercise.

(vi) On January 30, 2018, 1,698,841 of the Series D Warrants that were issued as part of the Series B Units were exercised for cash proceeds of $16,988. The fair value at the date of exercise was $1,004,195. In addition, the related derivative financial liability of $1,004,195 was derecognized (see Note 13) at the date of exercise.

(vii) During the nine months ended September 30, 2018, 2,623,431 Common Shares were issued on the conversion of $6,440,000 of aggregate principle amount of Notes. The total fair value of these Common Shares at the dates of conversion was $6,676,123. A realized gain of $80,036 was recognized in the consolidated statement of loss during the nine months ended September 30, 2018 as the $6,756,159 aggregate principle amount of Notes (see Note 13) was derecognized at the date of exercise.

(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 4, 2018, 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 15% of the number of Common Shares of the Company outstanding at any time.

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, 2017	78,650	$	310.96	
Granted	18,445		150.81	
Exercised	(21,740)		82.36	
Forfeited	(17,616)		183.06	
Options outstanding, December 31, 2017	**57,739**	**$**	**384.90**	**2.28**
Options exercisable, December 31, 2017	**45,134**	**$**	**397.66**	**1.94**
Granted	2,761,530		3.73	
Exercised	(503)		0.77	
Forfeited	(6,212)		320.60	
Expired	(7,407)		189.24	
Options outstanding, September 30, 2018	**2,805,147**	**$**	**10.18**	**7.88**
Options exercisable, September 30, 2018	**37,700**	**$**	**429.20**	**1.66**

(Expressed in U.S. dollars)

14. SHARE CAPITAL (continued)

(c) Stock options (continued)

The following table lists the options outstanding at September 30, 2018 by exercise price:

Exercise price	Options outstanding	Weighted average remaining term (yrs)	Options exercisable	Weighted average remaining term (yrs)
$2.72	2,705,250	8.00	-	-
$6.00	10,550	5.50	-	-
$64.00	44,280	7.32	-	-
$65-942	45,067	1.87	37,700	1.66
	2,805,147		37,700	

The following table lists the options outstanding at December 31, 2017 by exercise price:

Exercise price	Options outstanding	Weighted average remaining term (yrs)	Options exercisable	Weighted average remaining term (yrs)
$65-$967	57,489	2.30	44,984	1.96
$967-$1,216	250	2.17	150	2.17
	57,739		45,134	

The weighted average share price at the date of exercise for share options exercised for the three and nine months ended September 30, 2018 was $60 (three and nine months ended September 30, 2017: $190). During the three and nine months ended September 30, 2018, the Company recorded $1,603,317 and $1,873,582, respectively, as compensation expense for share-based compensation awarded to eligible optionees (three and six months ended September 30, 2017: $343,155 and $2,078,675, respectively). 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:

		2018		2017
Weighted average fair value	**$**	**0.81**	$	1.49
Weighted average exercise price	**$**	**1.24**	$	1.90
Weighted average share price at grant	**$**	**1.24**	$	1.90
Dividend yield		**nil**		nil
Volatility		**111%**		110%
Risk-free interest rate		**2.36%**		1.12%
Expected life		**8 years**		5 years
Forfeiture rate		**7%**		6%

(Expressed in U.S. dollars)

14. SHARE CAPITAL (continued)

(d) Warrants

The following table lists the number of warrants issued on November 17, 2017 as well as the number exercised during the period and the remaining warrants outstanding at September 30, 2018.

Warrants	**As at November 17, 2017**	**Issued**	**Exercised**	**As at September 30, 2018**	Exercise Price	Weighted average remaining contractual life (years)
Series A Warrants	25,676,368	8,951,780	-	**34,628,148**	$1.61	4.13
Series B Warrants	25,676,368	8,951,780	(25,676,368)	**-**	$1.61	-
Series C Warrants	10,273,972		(8,951,780)	**1,322,192**	$1.46	0.63
Series D Warrants	3,573,830		(3,573,830)	**-**	$0.01	-
Series E Warrants	22,431,506		-	**22,431,506**	$1.61	4.13
Series F Warrants	22,431,506		(22,431,506)	**-**	$1.61	-

Effect of reverse stock split share consolidation on outstanding warrants

On September 18, 2018, the Company effected a share consolidation (reverse stock split in the ratio of 1 for 100 common shares outstanding) of the Common Shares on the basis of one post-consolidation Common Shares for every 100 pre-consolidation Common Shares. The number of warrants and aggregate principle amount of Notes were not affected by the consolidation, but the Common Shares issuable upon exercise of the warrants or conversion of the Notes will be adjusted proportionally to the share consolidation ratio.

Below is a description of the features of the warrants.

Series A Warrants

There were 34,628,148 Series A Warrants issued and outstanding post share consolidation as of September 30, 2018 and 1,322,192 Series A Warrants issuable upon the exercise of the remaining Series C Warrants. Each Series A Warrant represents the right to purchase one Common Share at a notional exercise price equal to $1.61 per Common Share, subject to adjustment. The Series A Warrants are subject to full ratchet anti-dilution provisions in certain circumstances.

Series B Warrants

There were no Series B Warrants outstanding as of September 30, 2018 and 1,322,192 Series B Warrants issuable upon the exercise of the remaining Series C Warrants. Each Series B Warrant represents the right to purchase one Common Share at a notional exercise price equal to $1.61 per Common Share, subject to adjustment. The Series B Warrants are also subject to full ratchet anti-dilution provisions in certain circumstances.

At any time prior to their expiration, the holder of the Series B Warrant may, in its sole discretion, exercise the Series B Warrant in whole or in part and, in lieu of making any cash payment otherwise contemplated to be made to the Company upon such exercise in payment of the exercise price, elect instead to receive upon such exercise a number of Series B Warrant Shares equal to the number determined by an alternate cashless exercise formula (the "Alternate Net Number"). The Alternate Net Number is equal to the product of (i) the quotient obtained by dividing (x) the total number of Series B Warrant Shares with respect to which the Series B Warrant is being exercised and (y) the maximum number of Series B Warrant Shares (as adjusted for share splits, share dividends, share combinations, recapitalizations or other similar events) initially issuable upon a cash exercise of the Series B Warrant on the date of issuance and (ii) the quotient obtained by dividing (A) the difference obtained by subtracting (x) the lowest daily VWAP during the ten trading days period ending on and including such exercise date (the “Market Price”) from (y) the exercise price as of the subscription date (as adjusted for share splits, share dividends, share combinations, recapitalizations or other similar events) by (B) 85% of the Market Price.

Series C Warrants

There were 1,322,192 Series C Warrants issued and outstanding post share consolidation as of September 30, 2018. Each Series C Warrant may be exercised for a Series C Unit, with each Series C Unit being comprised of a Common Share, a Series A Warrant and a Series B Warrant. Each Series C Warrant represents the right to purchase one Series C Unit at a notional exercise price equal to $1.46 per Series C Unit, subject to adjustment.

(Expressed in U.S. dollars)

14. SHARE CAPITAL (continued)

Series D Warrants

There were no Series D Warrants remaining as of September 30, 2018. Each Series D Warrant represented the right to purchase one Common Share at a notional exercise price equal to $1.46 per Common Share, subject to adjustment. $1.45 of the exercise price of the Series D Warrants was prepaid to the Company on November 17, 2017 on the closing of the financing.

Series E Warrants

There were 22,431,506 Series E Warrants issued and outstanding post share consolidation as of September 30, 2018. Each Series E Warrant represents the right to purchase one Common Share at a notional exercise price equal to $1.61 per Common Share, subject to adjustment. The Series E Warrants were also subject to full ratchet anti-dilution provisions in certain circumstances.

Series F Warrants

There were no Series F warrants remaining or issuable as of September 30, 2018. Each Series F Warrant represented the right to purchase one Common Share at a notional exercise price equal to $1.61 per Common Share, subject to adjustment. The Series F Warrants were also subject to full ratchet anti-dilution provisions in certain circumstances.

15. SEGMENT INFORMATION

The Company's operations are in one business segment: the development, manufacture and marketing of medical devices. Each of the Company's product lines has similar characteristics, customers, distribution and marketing strategies, and are subject to similar regulatory requirements. Substantially all of the Company's long-lived assets are located in Canada. The Company carries on business in Canada and 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,	
	2018	2017	**2018**	2017
REVENUE				
Europe	**$ 505,040**	$ 5,654	**$ 1,181,709**	$ 478,702
United States	**(24,500)**	1,215,557	**(24,500)**	3,299,022
Rest of the World	**-**	153,682	**68,500**	383,665
	$ 480,540	$ 1,374,893	**$ 1,225,709**	$ 4,161,389

Sales to the Company's three largest customers accounted for approximately 33%, 10%, and 9% of the Company's sales for the nine months ended September 30, 2018. Sales to the Company's three largest customers accounted for approximately 56%, 11%, and 6% of the Company's sales for the nine months ended September 2017.

16. EMPLOYEE BENEFITS EXPENSE

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	**2018**	2017
Salaries and wages	**$ 1,995,293**	$ 2,096,247	**$ 5,918,412**	$ 6,546,851
Pension plan and employment insurance	**86,138**	107,572	**354,075**	429,867
Contribution to defined contribution pension plan	**46,385**	47,906	**130,205**	139,590
Health benefits	**108,676**	149,404	**349,762**	446,373
Cash-based employee expenses	**2,236,492**	2,401,129	**6,752,454**	7,562,681
Share-based payments	**1,603,317**	343,155	**1,873,582**	2,078,675
Total employee expenses	**$ 3,839,809**	$ 2,744,284	**$ 8,626,036**	$ 9,641,356

(Expressed in U.S. dollars)

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

	For the three months ended September 30, 2018 (as restated)	2017	For the nine months ended September 30, 2018 (as restated)	2017
EXPENSES				
Selling expenses				
Share-based payments	**$ 16,379**	$ 29,142	**$ 57,657**	$ 75,282
Cash-based employee expenses	**66,790**	60,335	**242,153**	122,866
Other expenses	**119,778**	164,314	**438,613**	467,193
	202,947	253,791	**738,423**	665,341
General and administrative expenses				
Depreciation	**44,589**	17,717	**144,469**	75,738
Share-based payments	**1,510,159**	103,337	**1,633,473**	878,833
Cash-based employee expenses	**669,853**	644,774	**1,671,507**	2,019,092
Litigation expenses	**91,089**	563,082	**273,608**	2,043,848
Employee termination expenses	**217,340**	-	**793,704**	-
Collaboration and services expenses (see Note 21)(i)	**2,379,790**	-	**2,379,790**	-
Other expenses	**1,427,927**	535,392	**4,126,751**	2,348,723
	6,340,747	1,864,302	**11,023,302**	7,366,234
Product development and clinical trials expenses				
Depreciation	**53,246**	106,846	**137,442**	275,912
Share-based payments	**76,779**	191,046	**182,452**	1,069,388
Cash-based employee expenses	**1,499,849**	1,794,180	**4,838,794**	5,554,332
Other expenses	**1,860,822**	2,330,569	**6,177,654**	6,827,312
	3,490,696	4,422,641	**11,348,342**	13,726,944
TOTAL EXPENSES	**$ 10,034,390**	$ 6,540,734	**$ 23,110,067**	$ 21,758,519
Depreciation per Statements of Cash Flows	**$ 97,835**	$ 142,034	**$ 281,911**	$ 387,762
Share-based payments per Statements of Cash Flows	**$ 1,603,317**	$ 343,155	**$ 1,873,582**	$ 2,078,675
Cash-based employee expenses (see Note 16)	**$ 2,236,492**	$ 2,401,129	**$ 6,752,454**	$ 7,562,681

i) The following table discloses the correction of each financial statement line items affected by the restatement as a result of an accrual adjustment for the contractual obligations under the collaboration and services agreement.

	For the three months ended September 30, 2018 (as restated)	2018 (as previously reported)	For the nine months ended September 30, 2018 (as restated)	2018 (as previously reported)
Total liabilities	**$ 33,449,395**	$ 32, 069,605	**$ 33,449,395**	$ 32, 069,605
Deficit	**(344,355,210)**	(342,975,420)	**(344,355,210)**	(342,975,420)
General and administrative expenses	**$ 6,340,747**	$ 4,960,957	**$ 11,023,302**	$ 9,643,512
Operating loss	**(9,650,593)**	(8,270,803)	**(22,157,097)**	(20,777,307)
Loss for the period	**(14,636,744)**	(13,256,954)	**(119,662,883)**	(118,283,093)
Loss per share	**$ (0.78)**	$ (0.70)	**$ (10.59)**	$ (10.46)

(Expressed in U.S. dollars)

18. OPERATING LEASES

The Company entered into an agreement for additional office space in September 2014 in Richmond, Canada. The agreement did not contain any contingent rent clauses, or purchase options or escalation clauses. The term of the lease was 36 months commencing on October 1, 2014. The lease contained an option to renew for an additional 36 months. In February 2017, the Company renewed the lease and added additional office premises. The term of the combined lease is 60 months commencing June 1, 2017. The amended agreement does not contain any contingent rent clauses, or purchase options or escalation clauses.

The Company entered into an agreement for additional office space in September 2014 in Minneapolis. The agreement did not contain any contingent rent clauses, or purchase options or escalation clauses. The original term of the lease was 66 months commencing on September 1, 2014. Additional office space was added in July 2015 in Minneapolis. The term of the combined lease is 69 months commencing on July 1, 2015. The lease contains an option to renew for an additional 36 months.

The Company entered into an agreement for additional office space in December 2016 in Richmond, Canada. 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 December 19, 2016.

The Company entered into an agreement for additional office space in June 2018 in Richmond, Canada. The agreement does not contain any contingent rent clauses, purchase options or escalation clauses. The term of the lease is 36 months commencing on August 1, 2018. The lease contains an option to renew for an additional 24 months.

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

	As at September 30, **2018**	2017
Year 1	**$ 489,014**	$ 344,910
Year 2	**481,836**	326,219
Year 3	**399,436**	310,656
Year 4	**172,084**	267,274
Year 5	**-**	178,183
	$ 1,542,370	$ 1,427,242

Lease payments recognized as an expense during the three and nine months ended September 30, 2018 amounted to $115,849 and $291,236 (three and nine months ended September 2017: $107,327 and $350,659).

19. LOSS PER SHARE

Both the basic and diluted loss per share have been calculated using the loss attributable to shareholders of the Company as the numerator. The weighted average number of Common Shares outstanding used for basic loss per share for the three and nine months ended September 30, 2018 amounted to 18,841,201 and 11,304,560 shares, respectively (three and nine months ended September 30, 2017: 789,033 and 788,374 shares)

	For the three months ended September 30, **2018**	For the three months ended September 30, 2017	For the nine months ended September 30, **2018**	For the nine months ended September 30, 2017
Weighted average number of Common Shares	**18,841,201**	789,033	**11,304,560**	788,374
Loss for the period (as restated)	**$ (14,636,744)**	$ (4,695,960)	**$ (119,662,883)**	$ (17,882,255)
Basic loss per share (as restated)	**$ (0.78)**	$ (5.95)	**$ (10.59)**	$ (22.68)

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)

20. RELATED PARTY TRANSACTIONS

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	**2018**	2017
Short-term employee benefits				
Employee salaries and bonuses	**$ 605,031**	$ 320,929	**$ 1,362,350**	$ 1,068,451
Directors fees	**67,500**	62,288	**202,500**	193,392
Social security and medical care costs	**10,648**	2,521	**51,641**	28,108
	683,179	385,738	**1,616,491**	1,289,951
Post-employment benefits				
Contributions to defined contribution pension plan	**9,839**	3,807	**28,011**	11,774
Share-based payments	**1,398,207**	27,944	**1,498,806**	977,483
Total key management remuneration	**$ 2,091,225**	$ 417,489	**$ 3,143,308**	$ 2,279,208

21. CONTINGENT LIABILITIES AND PROVISIONS

Litigation with CardiAQ

The Company is engaged as a defendant and appellant in lawsuits involving CardiAQ Valve Technologies Inc. ("CardiAQ"), as further described below. Litigation resulting from CardiAQ's claims has been, and is expected to be, costly and time-consuming and could divert the attention of management and key personnel from our business operations. Although we intend to vigorously defend ourselves against the remaining claims, we cannot assure that we will succeed in appealing and defending any of these claims and that judgments will not be upheld against us. If we are unsuccessful in our appeal and defense of these claims or unable to settle the claims in a manner satisfactory to us, we may be faced with significant loss of intellectual property rights that could have a material adverse effect on the Company and its financial condition.

Claims by CardiAQ in Germany

On June 23, 2014, CardiAQ filed a complaint against Neovasc in Munich, Germany (the "German Court") requesting that Neovasc assign its right to one of its European patent applications to CardiAQ. After a hearing held on December 14, 2016, the German Court rendered its decision on June 16, 2017, granting co-ownership of the European patent application to CardiAQ but denying their claim for full entitlement. There are no monetary awards associated with these matters and no damages award has been recognized. On July 14, 2017, Neovasc filed a notice of appeal against the German Court's decision with the Appeals Court of Munich. On July 20, 2017, CardiAQ filed a notice of appeal with the same court. Both parties have in the meantime substantiated their respective appeals. The oral hearing of the appeal before the Appeals Court of Munich was held on November 8, 2018. During that hearing CardiAQ dropped its affirmative appeal of the underlying decision, while maintaining its opposition to Neovasc's appeal.

Claims by CardiAQ in the United States

Between June 2016 and November 2017, Neovasc was engaged in litigation with CardiAQ in the U.S. District Court for the District of Massachusetts (the "Court") and, upon appeal, in the United States Court of Appeals for the Federal Circuit (the "Appeals Court"). This litigation concerned intellectual property rights ownership, unfair trade practices and breach of contract relating to Neovasc's transcatheter mitral valve technology, including the Tiara. 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. The Court later awarded CardiAQ $21 million in enhanced damages on the trade secret claim for relief and $20,675,154 in pre-judgment interest and $2,354 per day in post judgment interest from November 21, 2016. Neovasc and CardiAQ each appealed on various grounds, and on September 1, 2017, the Appeals Court affirmed the trial court judgment against Neovasc, and denied CardiAQ's cross appeal. On November 13, 2017, the final mandate was issued by the Appeals Court and approximately $70 million was released from escrow to CardiAQ to partially settle approximately $112 million damages and interest awards. Upon closing of the 2017 Financings on November 17, 2017, the Company used approximately $42 million from the $65 million net proceeds of the 2017 Financings to settle the remaining damages and interest awards.

21. CONTINGENT LIABILITIES AND PROVISIONS

Claims by CardiAQ in the United States (continued)

On March 24, 2017, CardiAQ filed a related lawsuit in the Court, asserting two claims for correction of patent inventorship as to Neovasc's U.S. Patents Nos. 9,241,790 and 9,248,014. On October 4, 2017, CardiAQ amended its pleading to add a third claim for correction of patent inventorship as to Neovasc's U.S. Patent No. 9,770,329. The lawsuit does not seek money damages and would not prevent the Company from practicing these patents. The Company moved to dismiss the complaint on November 16, 2017, and the Court denied this motion on September 28, 2018. On August 3, 2018, Neovasc wrote the presiding District Judge regarding potential resolution of the case including as to a statutory procedure available with the Patent Office concerning certain dependent claims of U.S. Patent 9,770,329 in particular, and the Court held a hearing to discuss this issue on September 13, 2018. No other litigation schedule or deadlines have been set; the Court has stayed the case until December 27, 2018 to allow the parties to discuss a potential resolution. Litigation is inherently uncertain. Therefore, until these matters have been resolved to their conclusion by the appropriate courts the Company cannot give any assurance as to the outcome.

Other Matters

By way of Amended Statement of Claim in Federal Court of Canada Action T-1831-16 (the "Action") Neovasc Inc. and Neovasc Medical Inc. (the "Neovasc Defendants") were added as defendants to an existing action commenced by Edwards Lifesciences PVT, Inc. and Edwards Lifesciences (Canada) Inc. (collectively the "Plaintiffs") against Livanova Canada Corp., Livanova PLC, Boston Scientific and Boston Scientific Ltd. (collectively, the "BSC/Livanova Defendants"). The Action was first filed in October 2016 and first concerned an allegation by the Plaintiffs that the manufacturing, assembly, use, sale and export of the Lotus Aortic Valve devices by the BSC/Livanova Defendants infringes on the Plaintiffs' patents. In February 2017, the Neovasc Defendants were added to the Plaintiffs' claim making related allegations. In summary, the Plaintiffs make three types of allegations as against the Neovasc Defendants: (a) indirect infringement claims; (b) direct infringement claims; and (c) claims of inducement. The plaintiffs seek various declarations, injunctions and unspecified damages and costs. The Neovasc Defendants filed their Statement of Defence in November 2017. The other defendants filed their Statement of Defence and Counterclaim against the Plaintiffs on April 30, 2018. The Neovasc Defendants intend to vigorously defend themselves against the Plaintiff's claims.

On September 7, 2018, Endovalve Inc. and Micro Interventional Devices, Inc. (collectively "Endovalve") filed a Complaint in the United States District Court for the District of New Jersey against Neovasc Inc. and Neovasc Tiara Inc. (the "Neovasc Defendants"), alleging claims for trade secret misappropriation, breach of contract, and unfair competition. Endovalve alleges that it was a former customer of Neovasc Inc., and that the Neovasc Defendants improperly used trade secrets in the development of Tiara. The Complaint seeks injunctive relief, money damages, and attorneys' fees. Endovalve has not served the Complaint and therefore no response is due in court at this time. If the Complaint is served, the Neovasc Defendants intend to vigorously defend themselves against Endovalve's claims.

Following the investigation into a potential claim involving another party's intellectual property rights, the Company conducted settlement discussions and reached a mutually-agreed upon license and collaboration agreement in August 2018.

SUBSEQUENT EVENTS

On October 9, 2018, following the implementation of the Company's share consolidation, the Company regained compliance with the minimum bid price requirement under Nasdaq Listing Rule 5550(a)(2) for continued listing on the Nasdaq and was in compliance with all other applicable continued listing requirements. The Nasdaq Listing Panel determined to continue the listing of the Company's Common Shares on the Nasdaq.

On October 10, 2018, the U.S. Food and Drug Administration (the "FDA") granted Breakthrough Device designation to the Reducer. The FDA grants Breakthrough Device designation in order to expedite the development and review of a device that demonstrates compelling potential to provide a more effective treatment or diagnosis for life-threatening or irreversibly debilitating diseases. To qualify as a Breakthrough Device, there must either be no FDA approved treatments presently available, or the technology must offer significant advantages over existing approved alternatives.

22. AUTHORIZATION OF FINANCIAL STATEMENTS

The amended and restated condensed interim consolidated financial statements for the three and nine months ended September 30, 2018 (including comparatives) were approved by the audit committee on behalf of the board of directors on February 22, 2019.

(signed) ***Chris Clark***

Chris Clark, Chief Financial Officer

(signed) ***Steve Rubin***

Steve Rubin, Director