Neovasc Inc.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2018, 2017 and 2016

(Expressed in U.S. dollars)

CONTENTS

Grant Thornton

Report of independent registered public accounting firm

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To the Board of Directors and Shareholders of Neovasc Inc.

Opinion on the financial statements

We have audited the accompanying consolidated statements of financial position of Neovasc Inc. (the "Company") as of December 31, 2018 and December 31, 2017, the related consolidated statements of comprehensive loss, changes in equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and December 31, 2017 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Material uncertainty related to going concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company incurred a net loss of $108,042,868 during the year ended December 31, 2018, and as of that date, the Company's liabilities exceeded its assets by $9,666,884. These conditions, along with other matters as set forth in Note 1, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2002.

Grant Thornton LLP

Vancouver, Canada
March 21, 2019

Chartered Professional Accountants

NEOVASC INC.
Consolidated Statements of Financial Position
As at December 31,
(Expressed in U.S. dollars)

	Notes	2018	2017	2016
ASSETS				
Current assets				
Cash and cash equivalents	6	**$ 9,242,809**	$ 17,507,157	$ 22,954,571
Cash held in escrow	7	**-**	-	70,000,000
Accounts receivable	8	**647,143**	1,334,923	3,117,474
Inventory	9	**258,742**	398,556	196,723
Prepaid expenses and other assets	10	**591,236**	802,366	505,340
Total current assets		**10,739,930**	20,043,002	96,774,108
Non-current assets				
Restricted cash	11	**439,736**	478,260	449,760
Property, plant and equipment	12	**813,628**	1,685,181	1,585,635
Total non-current assets		**1,253,364**	2,163,441	2,035,395
Total assets		**$ 11,993,294**	$ 22,206,443	$ 98,809,503
LIABILITIES AND EQUITY				
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	13	**$ 6,852,539**	$ 1,844,955	$ 2,490,943
Damages provision	14	**-**	-	111,781,096
Convertible Note	15	**1,423,224**	4,261,597	-
Derivative liability from financing	15	**-**	19,997,345	-
Total current liabilities		**8,275,763**	26,103,897	114,272,039
Non-Current Liabilities				
Convertible Note	15	**13,194,112**	15,745,962	-
Derivative liability from financing	15	**190,303**	16,831,685	-
Total non-current liabilities		**13,384,415**	32,577,647	-
Total liabilities		**$ 21,660,178**	$ 58,681,544	$ 114,272,039
Equity				
Share capital	17	**$ 304,460,533**	$ 171,803,816	$ 168,712,673
Contributed surplus	17	**26,260,806**	23,056,846	22,301,437
Accumulated other comprehensive loss		**(7,653,028)**	(6,643,436)	(4,693,040)
Deficit		**(332,735,195)**	(224,692,327)	(201,783,606)
Total equity		**(9,666,884)**	(36,475,101)	(15,462,536)
Total liabilities and equity		**$ 11,993,294**	$ 22,206,443	$ 98,809,503

Going Concern and Uncertainty (see Note 1b and 5d)
Subsequent Events (see Note 25)

See Accompanying Notes to the Consolidated Financial Statements

NEOVASC INC.
Consolidated Statements of Loss and Comprehensive Loss
For years ended December 31,
(Expressed in U.S. dollars)

	Notes	2018	2017	2016
REVENUE				
Reducer	18	**$ 1,749,133**	$ 1,128,126	$ 1,004,948
Contract manufacturing and consulting services		**-**	4,260,888	8,507,848
		1,749,133	5,389,014	9,512,796
COST OF GOODS SOLD		**366,258**	3,477,821	7,091,761
GROSS PROFIT		**1,382,875**	1,911,193	2,421,035
EXPENSES				
Selling expenses	20	**1,353,165**	886,226	696,638
General and administrative expenses	20	**16,438,936**	15,684,783	19,182,787
Product development and clinical trials expenses	20	**16,060,857**	17,489,092	19,364,503
		33,852,958	34,060,101	39,243,928
OPERATING LOSS		**(32,470,083)**	(32,148,908)	(36,822,893)
OTHER (EXPENSE)/INCOME				
Interest income		**183,065**	355,806	177,761
Gain on sale of assets		**238,907**	-	65,095,733
Damages provision		**-**	(738,021)	(111,781,096)
(Loss)/gain on foreign exchange		**(175,054)**	2,726,728	(273,746)
Unrealized (loss)/gain on derivative liability and convertible note	15	**(814,827)**	10,732,089	-
Realized loss on exercise of warrants and convertible note	17	**(28,003,594)**	-	-
Amortization of deferred loss	15	**(46,894,189)**	(3,351,987)	-
Unrealized gain on damages provision		**-**	-	(2,690,129)
		(75,465,692)	9,724,615	(49,471,477)
LOSS BEFORE TAX		**(107,935,775)**	(22,424,293)	(86,294,370)
Tax expense	16	**(107,093)**	(484,428)	(200,523)
LOSS FOR THE YEAR		**$ (108,042,868)**	$ (22,908,721)	$ (86,494,893)
OTHER COMPREHENSIVE INCOME FOR THE YEAR				
Exchange difference on translation other than for damages provision		**-**	(1,950,396)	1,406,842
Fair market value changes in convertible note due to changes in own credit risk		**(1,009,592)**	-	2,690,129
		(1,009,592)	(1,950,396)	4,096,971
LOSS AND OTHER COMPREHENSIVE LOSS FOR THE YEAR		**$ (109,052,460)**	$ (24,859,117)	$ (82,397,922)
LOSS PER SHARE				
Basic and diluted loss per share	22	**$ (7.63)**	$ (28.10)	$ (128.21)

See Accompanying Notes to the Consolidated Financial Statements

NEOVASC INC.

Consolidated Statements of Changes in Equity

(Expressed in U.S. dollars)

	Notes		Share Capital		Contributed Surplus		Accumulated Other Comprehensive Loss		Deficit		Total Equity
Balance at January 1, 2016		**$**	**161,505,037**	**$**	**20,569,110**	**$**	**(8,790,011)**	**$**	**(115,288,713)**	**$**	**57,995,423**
Issue of share capital pursuant to a private placement	17(b)		7,090,200		-		-		-		7,090,200
Share issue costs	17(b)		(35,540)		-		-		-		(35,540)
Issue of share capital on exercise of options	17(b)		152,976		(77,784)		-		-		75,192
Share-based payments	20		-		1,810,111		-		-		1,810,111
Transaction with owners during the year			7,207,636		1,732,327		-		-		8,939,963
Loss for the year			-		-		-		**(86,494,893)**		**(86,494,893)**
Other comprehensive loss for the year			-		-		**4,096,971**		**-**		**4,096,971**
Balance at December 31, 2016		**$**	**168,712,673**	**$**	**22,301,437**	**$**	**(4,693,040)**	**$**	**(201,783,606)**	**$**	**(15,462,536)**
Issue of share capital on exercise of options	17(b)		1,964,086		(1,729,134)		-		-		234,952
Issue of share capital on exercise of warrants	17(b)		1,127,057		-		-		-		1,127,057
Share-based payments	20		-		2,484,543		-		-		2,484,543
Transactions with owners during the year			3,091,143		755,409		-		-		3,846,552
Loss for the year			-		-		-		**(22,908,721)**		**(22,908,721)**
Other comprehensive loss for the year			-		-		**(1,950,396)**		-		**(1,950,396)**
Balance at December 31, 2017		**$**	**171,803,816**	**$**	**23,056,846**	**$**	**(6,643,436)**	**$**	**(224,692,327)**	**$**	**(36,475,101)**
Issue of share capital on exercise of options	17(b)		88,917		(88,917)		-		-		-
Issue of share capital on exercise of warrants	17(b)		113,985,426		-		-		-		113,985,426
Issue of share capital on conversion of notes	17(b)		18,582,374		-		-		-		18,582,374
Share-based payments	20		-		3,292,877		-		-		3,292,877
Transactions with owners during the year			132,656,717		3,203,960		-		-		135,860,677
Loss for the year			-		-		-		**(108,042,868)**		**(108,042,868)**
Other comprehensive loss for the year			-		-		**(1,009,592)**		-		**(1,009,592)**
Balance at December 31, 2018		**$**	**304,460,533**	**$**	**26,260,806**	**$**	**(7,653,028)**	**$**	**(332,735,195)**	**$**	**(9,666,884)**

See Accompanying Notes to the Consolidated Financial Statements

NEOVASC INC.

Consolidated Statements of Cash Flows

For years ended December 31,

(Expressed in U.S. dollars)

		2018	2017	2016
OPERATING ACTIVITIES				
Loss for the year		**$ (108,042,868)**	$ (22,908,721)	$ (86,494,893)
Adjustments for:				
Depreciation	20	**384,126**	534,545	755,734
Share-based payments	20	**3,292,877**	2,484,543	1,810,111
Damages provision		**-**	738,021	111,781,096
Accrued employee termination expenses		**373,171**	-	-
Collaboration and services provision		**1,379,790**	-	-
Settlement provision		**2,749,968**		
Gain on sale of assets		**(238,907)**	-	(65,095,733)
Loss on disposal of assets		**51,106**	-	-
Unrealized loss/(gain) on derivative liability and convertible	15	**814,827**	(10,732,089)	-
Realized loss on exercise of warrants and convertible note	17	**28,003,594**	-	-
Amortization of deferred loss	15	**46,894,189**	3,351,987	-
Write-down accounts receivable		**489,449**	-	-
Income tax expense		**107,093**	484,428	200,523
Interest income		**(183,065)**	(355,806)	(177,761)
		(23,924,650)	(26,403,092)	(37,220,923)
Net change in non-cash working capital items:				
Accounts receivable		**198,331**	1,907,768	(1,357,201)
Inventory		**139,814**	(174,392)	(470)
Prepaid expenses and other assets		**282,091**	(235,366)	(221,973)
Accounts payable and accrued liabilities		**504,655**	(1,046,664)	(842,360)
Damages Provision		**-**	(112,519,117)	-
		1,124,891	(112,067,771)	(2,422,004)
Income tax and Interest paid and received:				
Income tax paid		**183,065**	(255,118)	(326,492)
Interest received		**(178,054)**	112,036	175,260
		5,011	(143,082)	(151,232)
Net cash applied to operating activities		**(22,794,748)**	(138,613,945)	(39,794,159)
INVESTING ACTIVITES				
(Increase)/Decrease in restricted cash		**38,524**	2,520	(449,760)
Increase in cash held in escrow		**-**	70,000,000	(70,000,000)
Purchase of property, plant and equipment	12	**(190,382)**	(505,667)	(656,170)
Proceeds from sale of assets		**865,610**	-	67,741,740
Net cash (applied to)/ received from investing activities		**713,752**	69,496,853	(3,364,190)
FINANCING ACTIVITIES				
Proceeds from exercise of warrants	17(b)	**13,816,648**	18,750	-
Proceeds from private placements and public offerings		**-**	-	7,054,660
Proceeds from financing before fees		**-**	65,324,997	-
Proceeds from exercise of options		**-**	234,952	75,192
Net cash from financing activities		**13,816,648**	65,578,699	7,129,852
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(8,264,348)**	(3,538,393)	(36,028,497)
CASH AND CASH EQUIVALENTS				
Beginning of the year		**17,507,157**	22,954,571	55,026,171
Exchange difference on cash and cash equivalents		**-**	(1,909,021)	3,956,897
End of the year		**$ 9,242,809**	$ 17,507,157	$ 22,954,571
Represented by:				
Cash	**6**	**$ 9,242,809**	$ 17,507,157	13,961,537
Cashable high interest savings accounts		**-**	-	8,993,034
		$ 9,242,809	$ 17,507,157	$ 22,954,571

See Accompanying Notes to the 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 consolidated financial statements of the Company for the years ended December 31, 2018, 2017 and 2016 comprise of 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 Reducer (the "Reducer"), for the treatment of refractory angina, which is not currently commercially available in the United States and has been commercially available in Europe since 2015, and the Tiara (the "Tiara"), for the transcatheter treatment of mitral valve disease, which is currently under clinical investigation in the United States, Canada and Europe.

(b) Going Concern and Uncertainty

As at December 31, 2018, the Company had approximately $9.2 million in cash and cash equivalents, sufficient cash for approximately five months of operations, and will need to obtain additional debt or equity financing in 2019 to fund ongoing operations. 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 exercise of material uncertainty and cast substantial doubt about the Company's ability to continue as a going concern.

These 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 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 consolidated financial statements to Common Shares and options have been retroactively adjusted to reflect the share consolidation. The number of 2017 Warrants (as defined below) and aggregate principal amount of Notes (as defined below) were not affected by the consolidation, but the Common Shares issuable upon exercise of the 2017 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS), as issued by the International Accounting Standards Board ("IASB").

(b) Basis of measurement

The Company's consolidated financial statements have been prepared on the historical cost basis except as explained in the accounting policies set out in Note 3.

(c) Basis of consolidation

The 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., B-Balloon Ltd. (which is in the process of being voluntarily liquidated), Neovasc GmbH, and Neovasc Management Inc. All intercompany balances and transactions have been eliminated upon consolidation.

2. BASIS OF PREPARATION (continued)

(d) Presentation of financial statements

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

(e) Use of estimates and management judgment

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Significant areas requiring the use of estimates relate to the determination of the net realizable value of inventory (obsolescence provisions), allowance for doubtful accounts receivable, impairment of non-financial assets, useful lives of depreciable assets and expected life, and volatility and forfeiture rates for share-based payments.

Inventories

The Company estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

Allowance for doubtful accounts receivable

The Company has established and applied a provision matrix to the trade accounts receivables balances in order to calculate an allowance for doubtful accounts on adoption of IFRS 9. Actual collectability of customer balances can vary from the Company's estimation.

Impairment of long-lived assets

In assessing impairment, the Company estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Useful lives of depreciable assets

The Company reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utilization of the assets.

Share-based payments

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, risk free interest rate, volatility and forfeiture rates.

Determination of functional currency

The Company determines its functional currency as the United States dollar based on the primary economic environment in which it operates. IAS 21 The Effects of Changes in Foreign Exchange Rates outlines a number of factors to apply in determining the functional currency, which is subject to significant judgment by management. Management uses a number of factors to determine the primary economic environment in which the Company operates; it is normally the one in which it primarily generates and expends cash.

2. BASIS OF PREPARATION (continued)

Deferred tax assets

Deferred tax assets are recognized in respect of tax losses and other temporary differences to the extent probable that there will be taxable income available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized based on estimates of future taxable income.

Contingent Liabilities

Contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the consolidated financial statements of the year in which the change in probability occurs.

Accounting for financing and determination of fair value of derivative liabilities

The determination of the accounting treatment for the financing transactions completed in November 2017 is an area of significant management judgment. In particular, this involved the determination of whether the warrants issued and the conversion feature associated with the convertible note should be classified as equity or as derivative liabilities. The difference between the transaction amount and the fair value of the instruments issued in connection with the financing gives rise to a loss which has been deferred as the fair values were not determined using only observable market inputs. The manner in which the deferred loss will be recognized within income involves management judgment.

The warrants and convertible notes will be measured at fair value through profit and loss at each year end. The calculations of the fair value of these instruments involves the use of a number of estimates and a complex valuation model. The carrying amounts of these liabilities may change significantly as a result of changes to these estimates. Details of the estimates used as at December 31, 2018 are disclosed in Note 15.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

(a) Foreign currency translation

The presentation currency of the consolidated financial statements is the United States dollar. Where functional currency is different than presentation currency, all revenues, expenses and cash flows for each year are translated into the presentation currency using average rates for the year, or the rates in effect at the date of the transaction for significant transactions. Assets and liabilities are translated using the exchange rate at the end of the year and stockholders' equity was translated at historical rates. The resulting translation adjustment was recorded as accumulated foreign currency translation adjustment in accumulated other comprehensive income.

Foreign currency denominated non-monetary assets and liabilities are translated at the historical rates of exchange in effect on the date the asset was acquired or liability incurred. Foreign currency denominated revenues and expenses are translated at the rate of exchange on the date on which such transactions occur. Foreign currency gains or losses arising on the settlement of foreign-currency denominated monetary assets and liabilities are recognized in profit or loss in the year in which they arise.

Financial assets and financial liabilities are recognized on the Company's consolidated statement of financial position when the Company becomes party to the contractual provisions of the instrument. Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognized when the obligation specified in the contract is discharged, cancelled or expired.

Financial assets

The Company classifies its cash and cash equivalents, cash held in escrow, restricted cash, and accounts receivable at amortized cost. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments

Financial liabilities

The Company classifies its accounts payable and accrued liabilities as other financial liabilities. These financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The Company classifies its convertible note as a financial liability at fair value through profit and loss. The entire instrument is recognized initially at fair value with any subsequent changes in fair value recognized as an unrealized gain or loss in the statement of loss and comprehensive loss. All related transaction costs are expensed as incurred.

Derivative instruments, including derivative instruments embedded in other contracts and instruments designated for hedging activities, are recognized as either asset or liabilities in the statement of financial position and measured at fair value. The Company has not used derivative instruments to hedge exposures to cash flow or foreign currency risks. Any change in the fair value of a derivative or an embedded derivative not designated as a hedging instrument is recognized as an unrealized gain or loss in the statement of loss and comprehensive loss.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term, highly liquid investments that are readily convertible to known amounts of cash within 90 days of purchase.

(d) Cash held in escrow

Cash held in escrow represents cash placed in a joint escrow account that cannot be accessed by the Company without prior authorization from parties not related to the Company. Restricted cash is disclosed separately as part of other current assets. In the past, such cash was used to settle awards against the Company in its litigation with Edwards Lifesciences CardiAQ LLC ("CardiAQ"), formerly known as CardiAQ Valve Technologies Inc. (see Note 23).

(e) Restricted cash

Restricted cash represents secured cash that cannot be accessed by the Company without prior authorization from parties not related to the Company. Restricted cash is disclosed separately as part of other non-current assets.

(f) Inventory

Inventory is valued at the lower of cost and net realizable value for finished goods, work in progress and raw materials. Cost is determined on a first-in, first-out basis. Cost of finished goods and work in progress includes direct material and labor costs and an allocation of manufacturing overhead and applicable shipping and handling costs. In determining net realizable value, the Company considers factors such as obsolescence, future demand for inventory and contractual arrangements with customers.

(g) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

As no finite useful life for land can be determined, related carrying amounts are not depreciated.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

Depreciation of property, plant and equipment is recognized in profit or loss over the estimated useful lives using the following rates and methods:

Building	4% declining balance
Leasehold improvements	amortized over the life of the lease
Production & development equipment	30% declining balance
Computer hardware	30% declining balance
Computer software	100% declining balance
Office equipment	20% declining balance

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss.

(h) Impairment of assets

Financial instruments (including accounts receivable)

The Company reviews its accounts receivable at least at each reporting date to determine whether there is objective evidence that it is impaired.

The Company considers evidence of impairment for accounts receivable when the amounts are past due or when other objective information is received that a specific counterparty may default. Accounts receivable that are not considered to be individually impaired are reviewed for impairment in groups, using historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When subsequent events cause the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, if it is not possible to estimate the recoverable amount of an individual asset, the asset is included in the cash-generating unit to which it belongs and the recoverable amount of the cash-generating unit is estimated. As a result, some assets are tested individually for impairment and some are tested at the cash-generating unit level. A cash-generating unit is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit on a pro-rata basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Contingent Liabilities and Provisions

Provisions for product warranties, legal disputes, onerous contracts or other claims are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Company and amounts can be estimated reliably. No liability is recognized if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

(j) Employee benefits

The Company provides short-term employee benefits and post-employment benefits to current employees. The short-term employee benefits include wages, salaries, social security contributions, paid annual leave, paid sick leave and medical care. Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The Company provides post-employment benefits through defined contribution plans, including contributions to the Canadian Pension Plan and individual Registered Retirement Savings Plans of qualified employees. Contributions to defined contribution pension plans are recognized as an employee benefit expense in the years during which services are rendered by employees.

(k) Revenue recognition

In December 2017, the Company closed its contract manufacturing and consulting services business and is now focused on the commercialization of its own product, the Reducer. Revenues from the Reducer are recognized at a point in time as follows:

Effective January 1, 2018, upon adoption of IFRS 15 Revenue from Contracts with Customers, the Company recognizes revenue for goods provided when the performance obligations have been completed, when control of the goods transfer to the customer, when the goods have been accepted by the customer and when collectability is reasonably assured.

The consideration for goods provided is measured at the fair value of the consideration received. 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. The transaction price is documented on the contract or purchase order and agreed to by the customer.

The adoption of this new standard has had no significant impact on the Company’s consolidated financial statements.

Revenue recognition policy applicable before January 1, 2018

The Company earned revenue from four sources: the Reducer, product sales, contract manufacturing and consulting services. Revenues from these four sources were recognized as follows:

Revenue from the sale of goods was recognized when the Company transferred to the buyer the significant risks and rewards of ownership of the goods, the Company retained neither continuing managerial involvement nor effective control over the goods sold, the amount of revenue was measured reliably, it was probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction was measured reliably. For consulting services, revenue was recognized when the amount of revenue can be measured reliably, it was probable that the economic benefits associated with the transaction will flow to the Company and the stage of completion and the costs incurred or to be incurred in respect of the transaction was measured reliably.

Reducer, Product sales and Contract manufacturing

For the Reducer, product sales and contract manufacturing, these criteria were met upon time of shipment at shipping point.

Consulting services

For consulting services, these criteria were met as the services were delivered under the terms of the related consulting services contract.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Research and development

The Company is engaged in research and development. Research costs are expensed as incurred. Development costs are expensed in the year incurred, unless they meet the criteria for capitalization. The criteria include that development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditure is recognized in profit or loss as incurred. Management reviews the applicable criteria on a regular basis and if the criteria are no longer met, any remaining unamortized balance is written off as a charge to profit or loss. Research and development costs are reduced by any scientific research and experimental development tax credits to which the Company is entitled.

(m) Interest income and interest expense

Interest income comprises interest income from high interest savings accounts and guaranteed investment certificates. Interest income is recognized in profit or loss, using the effective interest method.

(n) Operating lease

Leases where the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases. Payments on operating leases are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(o) Income taxes

Tax expense represents current tax and deferred tax. Tax is recognized in profit or loss except to the extent it relates to items recognized in other comprehensive income or directly in equity. Current tax is based on the taxable profits for the year, and is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their respective carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither the accounting profit nor taxable profit. Deferred tax assets are recognized to the extent that it is probable that the future taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized. Deferred tax assets and liabilities are offset when the Company has a right and intention to offset tax assets and liabilities from the same taxation authority.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability settled.

(p) Equity

Share capital represents the value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital.

From time to time the Company may issue units consisting of common shares and common share purchase warrants. The Company estimates the fair value of the common shares based on their market price on the date of the issuance of the units. The residual difference, if any, between the unit price and the fair value of each common share represents the fair value attributable to each warrant. Any transaction costs associated with the issuance of units would be apportioned between the common shares and warrants based on their relative fair values.

Professional, consulting, regulatory fees and other costs that are directly attributable to financing transactions are deferred until such time as the transactions are completed. Share issue costs are charged to share capital when the related shares are issued. Costs relating to financing transactions that are abandoned are charged to profit and loss.

Contributed surplus includes the fair value of vested stock options (see Note 3(q)).
Deficit includes all current and prior year losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Share-based payments

The Company has an equity-settled share-based stock option plan. The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants (see Note 20(c)).

The fair value of the stock options awarded to employees, directors, officers and service providers is measured at grant date, using the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares, based on historic market price volatility, and an expected life of the options. The fair value of the options is recognized as an employee expense, with a corresponding increase in equity, over the year that the employees unconditionally become entitled to the options. The amount recognized as expense is adjusted to reflect the number of stock options expected to vest.

For stock options with non-vesting conditions, the grant date fair value of the options is recognized to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(r) Loss per share

Loss per share is computed using the weighted average number of common shares outstanding during the year. Diluted loss per share is computed using the treasury stock method and weighted average number of common shares outstanding during the year for the effects of all potentially dilutive shares.

(s) Operating segment

The Company operates its business in one segment. The Company reports information about revenues from customers for the Reducer, from geographical areas, and from major customers.

(t) Adoption of new standard

Accounting standard issued and effective January 1, 2018

IFRS 9 – Financial Instruments

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 has 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	Loans and receivables	Amortized cost
Trade receivables	Loans and receivables	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)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Adoption of new standard (continued)

As a result of the change in measurement categories for the convertible note, an adjustment of $1,009,592 for the year ended on December 31, 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.

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 December 31, 2018. Accordingly, the Company did not record an adjustment relating to the implementation of the expected credit loss model for trade receivables.

IFRS 15 – Revenue from contracts with customers

The Company adopted IFRS 15 on January 1, 2018 in accordance with the transitional provisions of the standard.
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 15 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 and therefore no adjustment to opening retained earnings was necessary.

Accounting standard issued and effective January 1, 2019

IFRS 16 - Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, from the perspective of the lessee, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 Leases and, instead, introduces a single lessee accounting model. From the perspective of the lessor, IFRS 16 substantially carries forward the accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and accounts for those two types of leases differently. The new standard is required to be applied for annual reporting years beginning on or after January 1, 2019. Early application of this standard is permitted.

While the Company continues to assess all potential impacts and transition provisions of this standard, the Company believes that the most significant impact will be related to the accounting for operating leases associated with office space. At this time, a quantitative estimate of the effect of the new standard has not been determined, but the Company anticipates a material impact to its statements of financial position due to the recognition of the present value of unavoidable future lease payments as lease assets and lease liabilities.

(Expressed in U.S. dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Adoption of new standard (continued)

The measurement of the total lease expense over the term of the lease is unaffected by the new standard; however, the required presentation on the consolidated statements of earnings (loss) will result in lease expenses being presented as depreciation of lease assets and finance costs rather than being fully recognized as general and administrative costs.

IFRIC 23 – Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23, Uncertainty over Income Tax Treatments. This interpretation specifies that if an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, it shall determine the tax result consistently with the tax treatment used or planned to be used in its income tax filing. If it is not probable, the entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which one the entity expects to better predict the resolution of the uncertainty:

- Most likely amount: single most likely amount in a range of possible outcomes;
- Expected value: sum of the probability-weighted amounts in a range of possible outcomes.

An entity shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019 with earlier application permitted. The Company will not early adopt IFRIC 23 and does not expect a significant 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 year.

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 years ended December 31, 2018, 2017 and 2016 there were no changes in the Company's capital management policy.

The capital of the Company is comprised of:

	December 31, 2018	December 31, 2017	December 31, 2016
Convertible Note	**$ 14,617,336**	$ 20,007,559	$ -
Equity	**(9,666,884)**	(36,475,101)	(15,462,536)
Capital	**$ 4,950,452**	$ (16,467,542)	$ (15,462,536)

(Expressed in U.S. dollars)

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 December 31, 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 December 31, 2017:

	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss				
Convertible Note	$ -	$ -	$ 20,007,559	$ 20,007,559
Derivative financial liabilities	$ -	$ -	$ 36,829,030	$ 36,829,030

As at December 31, 2018:

	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss				
Convertible Note	$ -	$ -	$ 14,617,336	$ 14,617,336
Derivative financial liabilities	$ -	$ -	$ 190,303	$ 190,303

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

	Note	December 31, 2018	December 31, 2017	December 31, 2016
Amortized cost				
Cash and cash equivalents	6	**$ 9,242,809**	$ 17,507,157	$ 22,954,571
Cash held in escrow	7	**-**	-	70,000,000
Accounts receivable	8	**647,143**	1,334,923	3,117,474
Restricted cash	11	**439,736**	478,260	449,760
		$ 10,329,688	$ 19,320,340	$ 96,521,805
Other financial liabilities at amortized cost				
Accounts payable and accrued liabilities	13	**$ 6,852,539**	$ 1,844,955	$ 2,490,943
Financial liabilities at fair value through profit and loss				
Convertible Note (current)	15	**1,423,224**	4,261,597	-
Derivative liability from financing (current)	15	**-**	19,997,345	-
Convertible Note (non-current)	15	**13,194,112**	15,745,962	-
Derivative liability from financing (non-current)	15	**190,303**	16,831,685	-
		$ 21,660,178	$ 58,681,544	$ 2,490,943

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 23% of the revenue for the year ended December 31, 2018 (year ended December 2017 and 2016: 65% and 38%, respectively). A 10% change in the foreign exchange rates for the Euro for foreign currency denominated accounts receivable will impact net income as at December 31, 2018 by approximately $6,000 (as at December 31, 2017 and 2016: $50,000 and $49,000, 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 $13,000 and $30,000, respectively, as at December 31, 2018 (as at December 31, 2017 and 2016, Euro: $32,000 and $10,000, 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 December 31, 2018, the Company had $9,242,809 in cash and cash equivalents as compared to cash and cash equivalents of $17,507,157 at December 31, 2017 and $22,954,571 at December 31, 2016. 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. After receipt of the net proceeds of approximately $4.05 million from the February 2019 underwritten public offering of Common Shares on February 28, 2019 (the "February 2019 Financing") and $4.25 million from the March 2019 underwritten public offering of Common Shares on March 15, 2019 (the "March 2019 Financing"), the Company expects that its cash is sufficient to sustain operations until approximately September 2019 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 December 31, 2018 is $637,421 (as at December 31, 2017 and 2016: $1,201,292 and $2,532,114, respectively). As at December 31, 2018, the Company had $311,642 (as at December 31, 2017 and 2016: $588,282 and $1,555,469, respectively) of trade accounts receivable that were overdue, according to the customers' credit terms. During the year ended December 31, 2018 the Company wrote down $489,449 of accounts receivable owed by customers (year ended December 2017 and 2016: $26,931 and $5,556, respectively).

The Company may also have credit risk related to its cash and cash equivalents and restricted cash, with a maximum exposure of $9,682,545 as at December 31, 2018 (as at December 31, 2017 and 2016: $17,985,417 and $93,404,331, respectively). 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

	December 31, 2018	December 31, 2017	December 31, 2016
Cash held in:			
United States dollars	**$ 8,173,582**	$ 16,989,119	$ 6,386,135
Canadian dollars	**483,730**	70,112	7,231,160
Euros	**585,497**	447,926	344,242
Cashable Canadian dollar high interest savings accounts	**-**	-	4,713,385
Cashable United States dollar high interest savings accounts	**-**	-	4,279,649
	$ 9,242,809	$ 17,507,157	$ 22,954,571

7. CASH HELD IN ESCROW

	December 31, 2018	December 31, 2017	December 31, 2016
Cash held in escrow	**-**	-	$ 70,000,000

The Company placed $70 million into a joint escrow account to partially cover the damages awarded against the Company in its primary U.S. litigation with CardiAQ. On November 13, 2017, the final mandate of the court was issued and approximately $70 million was released from escrow to CardiAQ to partially settle the approximately $112 million damages and interest awards.

8. ACCOUNTS RECEIVABLE

	December 31, 2018	December 31, 2017	December 31, 2016
Trade accounts receivable	**$ 637,421**	$ 1,201,292	$ 2,532,114
Other accounts receivable	**9,722**	133,631	585,360
	$ 647,143	$ 1,334,923	$ 3,117,474

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

	December 31, 2018	December 31, 2017	December 31, 2016
Not past due	**$ 361,469**	$ 693,010	$ 976,645
Past due 0 - 30 days	**18,614**	255,348	969,652
30 - 60 days	**-**	79,600	54,064
60 - 90 days	**54,428**	4,334	134,468
90 – 120 days	**-**	139,000	189,640
Over 120 days	**238,600**	110,000	327,645
Loss Allowance	**(35,690)**	(80,000)	(120,000)
	$ 637,421	$ 1,201,292	$ 2,532,114

All of the Company's trade and other receivables have been reviewed for impairment. During the year ended December 31, 2018, the Company wrote off $489,449 of accounts receivable (2017: $26,931 and 2016: $5,071).

(Expressed in U.S. dollars)

9. INVENTORY

	December 31, 2018	December 31, 2017	December 31, 2016
Raw materials	**$ 242,300**	$ 175,487	$ 83,934
Work in progress	**2,435**	171,599	62,040
Finished goods	**14,007**	51,470	50,749
	$ 258,742	$ 398,556	$ 196,723

During the years ended December 31, 2018 and 2017 the Company did not write down any inventory. During the year ended December 31, 2018, $366,258 of inventory was expensed in cost of goods sold (2017: $752,810 and 2016: $4,082,504).

10. PREPAID EXPENSES AND OTHER ASSETS

	December 31, 2018	December 31, 2017	December 31, 2016
Prepaid Expenses	**$ -**	$ 20,041	$ 187,480
Prepaid insurance	**190,849**	125,043	114,988
Deposits on rental agreements	**276,500**	308,492	53,771
Retainers for professional services	**5,593**	324,062	23,938
Other prepaid expenses and other assets	**118,294**	24,728	125,163
	$ 591,236	$ 802,366	$ 505,340

11. RESTRICTED CASH

	December 31, 2018	December 31, 2017	December 31, 2016
Restricted cash	**$ 439,736**	$ 478,260	$ 449,760

Restricted cash represents 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)

12. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Leasehold improvements	Production & development equipment	Computer hardware	Computer software	Office equipment	Total
COST								
Balance at January 1, 2016	**$ 374,766**	**$ 2,200,804**	**$ 118,009**	**$ 1,870,715**	**$ 431,090**	**$ 326,358**	**$ 276,245**	**$ 5,597,987**
Additions during the year	-	89,263	-	409,899	28,765	128,243	-	656,170
Disposals during the year	(157,791)	(1,994,191)	(84,808)	(964,018)	(45,641)	(41,724)	-	(3,288,173)
Cumulative translation adjustment	14,926	111,679	5,447	71,521	14,933	12,265	8,526	239,297
Balance at December 31, 2016	**$ 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 year	-	-	-	149,583	-	40,799	-	190,382
Disposals during the year	(249,493)	(438,471)	-	(310,353)	-	-	-	(998,317)
Balance as at December 31, 2018	**$ -**	**$ -**	**$ 169,938**	**$ 1,488,958**	**$ 543,922**	**$ 653,072**	**$ 316,085**	**$ 3,171,975**
ACCUMULATED DEPRECIATION								
Balance at January 1, 2016	**$ -**	**$ 335,239**	**$ 33,015**	**$ 834,027**	**$ 257,606**	**$ 268,926**	**$ 148,618**	**$ 1,877,431**
Depreciation for the year	-	77,205	50,101	402,426	61,645	137,682	26,675	755,734
Disposals during the year	-	(395,674)	(57,933)	(584,186)	(29,746)	(14,779)	-	(1,082,318)
Cumulative translation adjustment	-	18,130	1,567	31,536	7,694	5,647	4,225	68,799
Balance at December 31, 2016	**$ -**	**$ 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	-	3,180	3,964	60,347	24,730	33,889	14,429	140,538
Balance at December 31, 2017	**$ -**	**$ 53,564**	**$ 66,416**	**$ 998,944**	**$ 386,095**	**$ 572,017**	**$ 217,694**	**$ 2,294,729**
Depreciation for the year	-	7,698	23,439	211,908	47,348	74,055	19,678	384,126
Disposals during the year	-	(61,262)	-	(259,247)	-	-	-	(320,508)
Balance as at December 31, 2018	**$ -**	**$ -**	**$ 89,855**	**$ 951,605**	**$ 433,443**	**$ 646,072**	**$ 237,372**	**$ 2,358,347**
CARRYING AMOUNTS								
As at December 31, 2016	**$ 231,901**	**$ 372,655**	**$ 11,898**	**$ 704,314**	**$ 131,948**	**$ 27,666**	**$ 105,253**	**$ 1,585,635**
As at December 31, 2017	**$ 249,493**	**$ 384,907**	**$ 103,522**	**$ 650,784**	**$ 157,827**	**$ 40,256**	**$ 98,391**	**$ 1,685,181**
As at December 31, 2018	**$ -**	**$ -**	**$ 80,083**	**$ 537,353**	**$ 110,479**	**$ 7,000**	**$ 78,713**	**$ 813,628**

(Expressed in U.S. dollars)

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2018	December 31, 2017	December 31, 2016
Trade payables	**$ 898,711**	$ 1,256,795	$ 943,922
Accrued liabilities	**5,247,431**	346,984	217,036
Accrued vacation	**142,730**	157,198	1,270,306
Accrued employee termination expenses	**373,171**	-	-
Other accounts payable	**190,496**	83,978	59,679
	$ 6,852,539	$ 1,844,955	$ 2,490,943

Included in accounts payable and accrued liabilities are $1,379,790 related to settlement charges as part of a collaboration agreement and $2,749,968 related to a settlement provision (see Note 24). This represents the calculated net present value of the amounts set out per the agreement with payments due over the next three years.

14. DAMAGES PROVISION

	December 31, 2018	December 31, 2017	December 31, 2016
Initial damages	**$ -**	**$ -**	$ 70,000,000
Enhanced damages	**-**	**-**	21,000,000
Pre-judgment interest	**-**	**-**	20,675,154
Accrued post-judgment interest	**-**	**-**	105,942
	$ -	**$ -**	$ 111,781,096

On May 19, 2016, in the Company's primary U.S. litigation with CardiAQ, following a trial in Boston, Massachusetts, a jury awarded $70 million on certain trade secret claims made by CardiAQ. On October 31, 2016, during post-trial motions, the judge awarded $21 million enhanced damages on those claims and on January 18, 2017 during post-trial motions the judge awarded $20,675,154 in pre-judgment interest and $2,354 per day in post-judgment interest from November 21, 2016. During 2017 interest of $738,021 was accrued. On November 13, 2017, the final mandate of the Appeals Court was issued and on November 17, 2017, a total of $112,519,117 was paid to settle the remaining damages and interest awards in full.

15. DERIVATIVE FINANCIAL LIABILITY AND CONVERTIBLE NOTE

(a) Derivative Financial Liabilities

On November 17, 2017, Neovasc completed an underwritten public offering (the "2017 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.

15. DERIVATIVE FINANCIAL LIABILITY AND CONVERTIBLE NOTE (continued)

(a) Derivative Financial Liabilities (continued)

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 December 31, 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 (collectively, the “2017 Warrants”) issued pursuant to the 2017 Public Transaction and the 2017 Private Placement (as defined below) included various price adjustment clauses, some of which caused 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.

(b) Convertible Note

On November 17, 2017, the Company also completed a brokered private placement (the “2017 Private Placement” 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. 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 December 31, 2018 the loss on initial recognition has been fully amortized.

(Expressed in U.S. dollars)

15. DERIVATIVE FINANCIAL LIABILITY AND CONVERTIBLE NOTE (continued)

(c) Warrants and Convertible Notes Model

The 2017 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 December 31, 2018 are summarized below:

Valuation Date	November 17, 2017	December 31, 2017	**December 31, 2018**
Price of Common Shares	$ 87.27	$ 60.00	**$ 0.6030**
Dividend Yield	0%	0%	**0%**
Historical volatility of Common Shares	122.99%	121.70%	**141.96%**
Historical volatility of index	14.28%	14.43%	**15.37%**
Volatility input	68.63%	68.07%	**78.67%**
Risk-free rate	2.08%	2.20%	**2.52%**
Credit spread	32.63%	34.24%	**24.51%**

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	-	(1,108,306)	-	**(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	6,664,408	34,340,644	1,627,539	**$ 42,632,591**
Less:				
Exercise of 1,698,841 Series D Warrants	-	(1,004,185)	-	**(1,004,185)**
Exercise of 11,170,788 Series B Warrants	(303,919)	(6,250,110)	-	**(6,554,029)**
Exercise of 21,041,660 Series F Warrants	-	(26,552,270)	-	**(26,552,270)**
Exercise of 14,505,580 Series B Warrants	(11,614,224)	(14,820,745)	-	**(26,434,969)**
Exercise of 8,951,780 Series C Warrants	(833,987)	(3,371,375)	-	**(4,205,362)**
Exercise of 1,389,846 Series F Warrants	-	(2,532,855)	-	**(2,532,855)**
Exercise of 500,000 Series C Warrants		(253,887)		**(253,887)**
Fair value adjustment, December 31, 2018	1,190,630	(8,411,543)	(4,512,848)	**(11,733,761)**
Balance, Derivative financial liability December 31, 2018	$ 35,693	$ 82,523	$ 72,087	**$ 190,303**
Derivative financial liability, current				**$ -**
Derivative financial liability, non-current				**$ 190,303**

(Expressed in U.S. dollars)

15. 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	**4,261,598**
Less:	
Exercise of 5,567,500 Convertible Notes	**(5,146,924)**
Exercise of 1,772,500 Convertible Notes	**(1,536,596)**
Exercise of 10,300,000 Convertible Notes	**(13,872,312)**
Fair value adjustment, December 31, 2018	**10,904,011**
Balance, Convertible Notes December 31, 2018	**$ 14,617,336**
Convertible Notes, current	**$ 1,423,224**
Convertible Notes, non-current	**$ 13,194,112**

16. INCOME TAXES

The relationship between the expected tax expense based on the combined federal and provincial income tax rate in Canada and the reported tax expense in the consolidated statement of comprehensive income can be reconciled as follows:

	For the years ended December 31,		
	2018	2017	2016
Loss before income taxes	**$ (107,935,775)**	$ (22,424,293)	$ (86,294,370)
Statutory tax rate	**27.00%**	26.00%	26.00%
Recovery of income taxes based on the combined Canadian federal and provincial statutory rates	**(29,142,659)**	(5,830,316)	(22,436,536)
Share-based remuneration	**1,073,142**	650,335	468,939
Effect of rate change	**-**	(2,344,122)	-
Foreign exchange adjustment	**-**	(28,668)	333,276
Other permanent differences	**20,930,238**	(1,798,205)	(8,821,908)
Unrecognized deferred tax benefits	**7,183,316**	9,670,642	30,531,995
Difference in tax rates between foreign jurisdictions and Canada	**63,056**	164,762	124,757
Income tax expense	**$ 107,093**	$ 484,428	$ 200,523

(Expressed in U.S. dollars)

16. INCOME TAXES (continued)

The components of income tax expense are shown in the following table:

	For the years ended December 31, **2018**	2017	2016
Current tax	**$ 107,093**	$ 484,428	$ 200,523
Deferred tax	**-**	-	-
Income tax expense	**$ 107,093**	$ 484,428	$ 200,523

The Company has recorded no deferred tax assets in the consolidated statement of financial position. The unrecognized deferred tax assets include tax losses, research and development pools and differences between the carrying amount and the tax basis of the following items:

Deferred tax assets	For the years ended December 31, **2018**	2017	2016
Investment tax credits	**$ 2,525,545**	$ 3,108,576	$ 2,689,744
Capital assets	**182,385**	500,445	328,039
Share issue expenses	**1,198,653**	1,774,820	772,687
Non-capital loss carry forwards	**65,556,024**	56,627,473	22,828,376
Foreign exchange	**5,453**	5,500	(12,388)
Research and development expenditures	**-**	265,260	68,037
Reserve for legal damages	**-**	-	28,205,068
Deferred compensation	**22,232**	31,387	50,454
	$ 69,490,292	$ 62,313,461	$ 54,930,017
Tax attributes not Recognized	**$ (69,490,292)**	$ (62,313,461)	$ (54,930,017)

The Company has loss carry forward balances for income tax purposes of approximately $244,571,943 that are available to reduce taxable income in Canada in the future years, if any, expiring at various times through to the year 2038. The Company also has investment tax credits of approximately $3,054,186 available to reduce income taxes in the future years, expiring at various times through to the year 2038.

17. 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.

(Expressed in U.S. dollars)

17. SHARE CAPITAL (continued)

(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		Amount		Contributed Surplus
Balance, January 1, 2016	**667,649**	**$**	**161,505,037**	**$**	**20,569,110**
Issued for cash pursuant to a private placement (ii)	118,170		7,090,200		-
Share issue costs (ii)	-		(35,540)		-
Issued for cash on exercise of options	1,014		152,976		(77,784)
Share-based payments	-		-		1,810,111
Balance, December 31, 2016	**786,833**	**$**	**168,712,673**	**$**	**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	2,548		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)	13,152,807		54,119,300		-
Common Shares issued from exercise of Series F Warrants (iv)	2,957,397		42,990,737		-
Common Shares issued from exercise of Series C Warrants (v)	94,518		15,854,206		-
Common Shares issued from exercise of Series D Warrants (vi)	16,988		1,021,183		-
Common Shares issued from exercise of Convertible Notes (vii)	10,765,834		18,582,374		-
Common Shares issued for cash on exercise of options	503		88,917		(88,917)
Share-based payments	-		-		3,292,877
Balance, December 31, 2018	**28,017,203**	**$**	**304,460,533**	**$**	**26,260,806**

(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 15) was recognized within equity upon exercise.

(iii) During the year ended December 31, 2018, 13,152,808 Common Shares were issued on the exercise of 35,128,148 Series B Warrants. The related derivative liability of $32,988,998 (see Note 15) was derecognized at the dates of exercise

(Expressed in U.S. dollars)

17. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued)

(iv) During the year ended December 31, 2018, 2,957,397 Common Shares were issued on the exercise of the 22,431,506 Series F Warrants. The related derivative financial liability of $29,085,125 (see Note 15) was derecognized at the dates of exercise.

(v) During the year ended December 31, 2018, of the 10,273,972 Series C Warrants initially granted, 9,451,780 were exercised for 94,518 Common Shares, 9,451,780 Series A Warrants and 9,451,780 Series B Warrants and cash proceeds of $13,799,659. The related derivative financial liability of $4,459,249 (see Note 15) 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 related derivative financial liability of $1,004,195 was derecognized (see Note 15) at the date of exercise.

(vii) During the year ended December 31, 2018, 10,765,834 Common Shares were issued on the conversion of $17,640,000 of aggregate principal amount of Notes. The $20,555,832 aggregate principal amount of Notes (see Note 15) 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 years as follows:

	Number of options		Weighted average exercise price	Average remaining contractual life (years)
Options outstanding, January 1, 2016	81,282		293.06	
Granted	1,697		364.77	
Exercised	(1,013)		74.14	
Forfeited	(3,316)		449.11	
Options outstanding, December 31, 2016	**78,650**	**$**	**290.85**	**1.77**
Options exercisable, December 31, 2016	**67,978**	**$**	**252.95**	**1.54**
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	3,660,530		3.03	
Exercised	(499)		0.73	
Forfeited	(12,027)		173.69	
Expired	(8,091)		181.13	
Options outstanding, December 31, 2018	**3,697,652**	**$**	**7.58**	**7.88**
Options exercisable, December 31, 2018	**1,462,535**	**$**	**12.74**	**7.62**

(Expressed in U.S. dollars)

17. SHARE CAPITAL (continued)

(c) Stock options (continued)

The following table lists the options outstanding at December 31, 2018 by exercise price:

Exercise price	Options outstanding	Weighted average remaining term (yrs)	Options exercisable	Weighted average remaining term (yrs)
$0.88	899,000	7.92	299,666	7.92
$2.72	2,710,550	7.75	1,125,572	7.75
$6.00-$63.00	44,200	7.06	-	-
$63.01-$892	43,902	1.65	37,297	1.45
	3,697,652		1,462,535	

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)
$185-$1,216	57,739	2.24	45,134	2.07
	57,739		45,134	

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

Exercise price	Options outstanding	Weighted average remaining term (yrs)	Options exercisable	Weighted average remaining term (yrs)
$0.01 - $200	44,330	0.96	43,570	0.95
$200 - 600	28,169	2.72	21,480	2.51
$600 – 905	6,151	3.28	2,928	3.26
	78,650		67,978	

The weighted average share price at the date of exercise for share options exercised for the year ended December 31, 2018 was $3.03 (year ended December 31, 2017: $190 and year ended December 31, 2016: $490). During the year ended December 31, 2018, the Company recorded $3,292,877, as compensation expense for share-based compensation awarded to eligible optionees (year ended December 31, 2017 and 2016: $2,484,543 and $1, 810,111, 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		2016
Weighted average fair value	**$**	**1.64**	$	1.49	$	3.02
Weighted average exercise price	**$**	**3.03**	$	190	$	490
Weighted average share price at grant	**$**	**3.03**	$	190	$	490
Dividend yield		**nil**		nil		nil
Volatility		**72%**		110%		76%
Risk-free interest rate		**2.24%**		1.12%		0.75%
Expected life		**4 years**		5 years		5 years
Forfeiture rate		**7.00%**		6.00%		1.00%

(Expressed in U.S. dollars)

17. 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 year and the remaining warrants outstanding at December 31, 2018.

Warrants	**As at November 17, 2017**	**Issued**	**Exercised**	**December 31, 2018**	Exercise Price	Weighted average remaining contractual life (years)
Series A Warrants	25,676,368	9,451,780	-	**35,128,148**	$1.61	4.13
Series B Warrants	25,676,368	9,451,780	(35,128,148)	**-**	$1.61	-
Series C Warrants	10,273,972		(9,451,780)	**822,192**	$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 principal 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.

The share consolidation adjusted the notional exercise price of the Series A Warrants, Series B Warrants and Series E Warrants. There were no Series D Warrants and Series F Warrants outstanding at the date of the share consolidation.

Below is a description of the features of the warrants.

Series A Warrants

There were 35,128,148 Series A Warrants issued and outstanding post share consolidation as of December 31, 2018 and 822,192 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 December 31, 2018 and 822,192 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.

(Expressed in U.S. dollars)

17. SHARE CAPITAL (continued)

(d) Warrants (continued)

Series C Warrants

There were 822,192 Series C Warrants issued and outstanding post share consolidation as of December 31, 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.

Series D Warrants

There were no Series D Warrants remaining as of December 31, 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 December 31, 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 December 31, 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.

18. 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 years ended December 31,		
	2018	2017	2016
REVENUE			
Europe	**$ 1,600,633**	$ 466,471	$ 4,832,977
Rest of the World	**148,500**	4,393,303	4,251,260
United States	**-**	529,240	428,559
	$ 1,749,133	$ 5,389,014	$ 9,512,796

Sales to the Company's three largest customers accounted for approximately 28%, 9%, and 9% of the Company's sales for the year ended December 31, 2018. Sales to the Company's three largest customers accounted for approximately 57%, 9%, and 6% of the Company's sales for the year ended December 31 2017. Sales to the Company's three largest customers accounted for approximately 36%, 32%, and 15% of the Company's sales for the year ended December 31, 2016.

(Expressed in U.S. dollars)

19. EMPLOYEE BENEFITS EXPENSE

	For the years ended December 31,		
	2018	2017	2016
Salaries and wages	**$ 8,477,335**	$ 9,244,473	$ 10,155,918
Pension plan and employment insurance	**418,303**	509,966	583,093
Contribution to defined contribution pension plan	**170,358**	194,123	209,494
Health benefits	**476,217**	613,918	810,609
Cash-based employee expenses	**9,542,213**	10,562,480	11,759,114
Employee termination expenses	**761,354**	-	-
Share-based payments	**3,292,877**	2,484,543	1,810,111
Total employee expenses	**$ 13,596,444**	$ 13,047,023	$ 13,569,225

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

	For the years ended December 31,		
	2018	2017	2016
EXPENSES			
Selling expenses			
Share-based payments	**$ 170,416**	$ 98,379	$ 138,334
Cash-based employee expenses	**352,837**	202,261	109,150
Other expenses	**829,912**	585,586	449,154
	$ 1,353,165	$ 886,226	$ 696,638
General and administrative expenses			
Depreciation	**60,206**	93,196	119,977
Share-based payments	**2,147,832**	1,080,627	510,508
Cash-based employee expenses	**2,498,005**	2,792,897	2,713,110
Litigation expenses	**540,125**	2,410,350	13,170,138
Employee termination expenses	**761,354**	-	-
Collaboration and settlement expenses (see Note 24)	**2,379,790**	-	-
Settlement provision (see Note 24)	**2,749,968**	-	-
Expenses related to the 2017 Financings	**-**	5,447,182	-
Other expenses	**5,301,656**	3,860,531	2,669,054
	$ 16,438,936	$ 15,684,783	$ 19,182,787
Product development and clinical trials expenses			
Depreciation	**323,920**	382,234	426,144
Share-based payments	**974,629**	1,305,535	1,160,269
Cash-based employee expenses	**6,691,371**	7,609,387	10,195,949
Other expenses	**8,070,937**	8,191,936	7,582,141
	16,060,857	17,489,092	19,364,503
TOTAL EXPENSES	**$ 33,852,958**	$ 34,060,101	$ 39,243,928
Depreciation per Statements of Cash Flows	**$ 384,126**	$ 534,545	$ 755,734
Share-based payments per Statements of Cash Flows	**$ 3,292,877**	$ 2,484,543	$ 1,810,111
Cash-based employee expenses (see Note 19)	**$ 9,542,213**	$ 10,562,480	$ 11,759,114

(Expressed in U.S. dollars)

21. 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. In December 2018, the Company renewed the lease for another 24 months commencing on Dec 19, 2018.

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 December 31,		
	2018	2017	2016
Year 1	**$ 479,301**	$ 343,564	$ 198,814
Year 2	**478,040**	320,999	110,303
Year 3	**338,149**	292,845	79,852
Year 4	**101,861**	265,873	33,838
Year 5	**-**	110,780	-
	$ 1,397,351	$ 1,334,061	$ 422,807

Lease payments recognized as an expense during the year ended December 31, 2018 amounted to $403,523 (the year ended December 31, 2017 and 2016: $308,037 and $459,394, respectively).

22. 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 year ended December 31, 2018 amounted to 14,160,115 shares (year ended December 31, 2017 and 2016: 81,523,874 shares and 67,465,300, respectively)

	For the years ended December 31,		
	2018	2017	2016
Weighted average number of Common Shares	**14,160,115**	815,239	674,653
Loss for the year	**$ (108,042,868)**	$ (22,908,721)	$ (86,494,893)
Basic and diluted loss per share	**$ (7.63)**	$ (28.10)	$ (128.21)

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)

23. RELATED PARTY TRANSACTIONS

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

	For the years ended December 31, 2018	2017	2016
Short-term employee benefits			
Employee salaries and bonuses	**$ 2,112,605**	$ 1,326,702	$ 1,224,103
Directors fees	**270,000**	267,785	270,000
Social security and medical care costs	**63,529**	32,912	43,224
	2,446,134	1,627,399	1,537,327
Post-employment benefits			
Contributions to defined contribution pension plan	**34,162**	15,928	13,646
Employee termination expenses	**296,592**	-	-
	330,754	15,928	13,646
Share-based payments	**2,270,023**	1,055,719	253,766
Total key management remuneration	**$ 5,046,911**	$ 2,699,046	$ 1,804,739

24. CONTINGENT LIABILITIES AND PROVISIONS

Litigation

Litigation resulting from third party 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. The decision of the Appeals Court of Munich was rendered on March 21, 2019, wherein it amended the decision of the German Court and dismissed the complaint of CardiAQ in full.

Claims by CardiAQ in the United States

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 April 15, 2019 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.

24. CONTINGENT LIABILITIES AND PROVISIONS (continued)

Claims by CardiAQ in the United States (continued)

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.

Other Matters

By way of Amended Statement of Claim in Federal Court of Canada Action T-1831-16 (the “Action”), Neovasc Inc. and Neovasc Tiara 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 “Edwards 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 Edwards Plaintiffs that the manufacturing, assembly, use, sale and export of the Lotus Aortic Valve devices by the BSC/Livanova Defendants infringes on the Edwards Plaintiffs’ patents. In February 2017, the Neovasc Defendants were added to the Edwards Plaintiffs’ claim making related allegations. In summary, the Edwards 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 Edwards 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 Edwards Plaintiffs on April 30, 2018. On January 22, 2019, the Company announced that pursuant to a settlement reached with the Edwards Plaintiffs, the patent infringement action that the Edwards Plaintiffs had previously commenced in the Federal Court of Canada against the Company, Boston Scientific and Livanova, will be dismissed on a no-costs basis.

On August 3, 2018, the Company announced that it had entered into a collaboration and licensing agreement with Penn Medicine and the Gorman Cardiovascular Research Group at the University of Pennsylvania, which resolved certain potential claims against the Company that had been previously disclosed.

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 the Neovasc Defendants, alleging claims for trade secret misappropriation, breach of contract, and unfair competition. Endovalve alleged 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 sought injunctive relief, money damages, and attorneys’ fees.

When the Company assesses that it is more likely 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 provision is recognized and contingent liability disclosure is required. The Company has accrued $2,749,968 as at December 31, 2018 representing the discounted value of future payments anticipated under the settlement agreement signed with Endovalve on February 20, 2019 (see note 25). The Company has not accrued for any future royalty payments in the settlement agreement with Endovalve as the amounts are undeterminable at this time.

25. SUBSEQUENT EVENTS

On January 3, 2019, the Company received written notification (the "Market Value Notification Letter") from the Nasdaq Listing Qualifications Department notifying the Company that it was not in compliance with the $35 million minimum market value requirement set forth in the Nasdaq Marketplace Rules. The Market Value Notification Letter does not impact the Company's listing on the Nasdaq at this time. In accordance with Nasdaq Listing Rule 5810(c)(3)(C), the Company has been provided 180 calendar days, or until July 2, 2019, to regain compliance. The Company intends to monitor the market value of its listed securities between now and July 2, 2019 and intends to attempt to cure the deficiency within the prescribed grace period.

On January 14, 2019, the Company received written notification (the "Bid Price Notification Letter") from the Nasdaq Listing Qualifications Department notifying the Company that it was not in compliance with the $1.00 minimum bid price requirement set forth in the Nasdaq Marketplace Rules. The Bid Price Notification Letter does not impact the Company's listing on the Nasdaq at this time. In accordance with Nasdaq Listing Rule 5810(c)(3)(A), the Company has been provided 180 calendar days, or until July 15, 2019, to regain compliance. The Company intends to monitor the closing bid price of its common shares between now and July 15, 2019 and intends to attempt to cure the deficiency within the prescribed grace period.

In the event the Company does not regain compliance with the Nasdaq minimum market value or minimum bid price rules within the prescribed compliance periods, the Company may be eligible for additional time to regain compliance or may face delisting. Nasdaq also has broad discretionary public interest authority that it can exercise to apply additional or more stringent criteria for the continued listing of the Common Shares, or suspend or delist securities even if the securities meet all enumerated criteria for continued listing on the Nasdaq. The Nasdaq could use this discretionary authority at any time to delist the Common Shares. There can be no assurance that Nasdaq will not exercise such discretionary authority. In addition, there is no assurance that the Company will be able to regain compliance with the minimum bid price and minimum market value requirements prior to expiration of the prescribed compliance periods, or if it does, that the Company will be able to maintain such compliance as a result of the risks and uncertainties described above.

On January 22, 2019, the Company announced that pursuant to a settlement reached with Edwards Lifesciences PVT, Inc. and Edwards Lifesciences (Canada) Inc. (collectively, "Edwards"), the patent infringement action that Edwards had previously commenced in the Federal Court of Canada against the Company, Boston Scientific and Livanova, will be dismissed on a no-costs basis.

On February 20, 2019, the Company announced that it had entered into a settlement agreement with Endovalve. This agreement resolved certain potential claims against the Company. The settlement agreement contemplates certain fees being paid by Neovasc to Endovalve, including settlement fees in installments totaling $3 million over the two and a half years following the agreement's execution. In addition, Neovasc agreed to pay Endovalve a royalty of 1.3% on the annual net sales of the Tiara following the first commercial sale of the Tiara. Also contained in the settlement agreement are buy-out clauses that allow Neovasc, or an acquirer of Neovasc or the Tiara assets, to buy out these royalty obligations. As part of the settlement agreement, the claims against the Neovasc Defendants were dismissed with prejudice.

On December 20, 2018, the Company filed a comprehensive Q-Sub submission to the U.S. Food and Drug Administration (the "FDA") with all available Reducer clinical evidence, requesting a Sprint FDA discussion meeting. The Neovasc team, together with two top U.S. Cardiologists, met with the FDA proposing moving forward with a premarket approval ("PMA") submission using the available Neovasc clinical evidence. On February 20, 2019, the Company announced that the FDA had informed Neovasc that, despite "Breakthrough Device Designation", the FDA review team recommends collection of further pre-market blinded data prior to PMA submission. Through the Sprint discussion process, Neovasc will continue discussions with the FDA and their senior management, to attempt to bring this promising refractory angina device therapy to U.S. patients as soon as possible.

25. SUBSEQUENT EVENTS (continued)

On February 28, 2019, the Company completed an underwritten public offering (the “February 2019 Financing”) of 11,111,111 Common Shares, at a price of $0.45 per Common Share, for gross proceeds of approximately $5 million before deducting the underwriting commission and offering expenses payable by the Company. The Company intends to use the approximately $4.02 million net proceeds of the February 2019 Financing for the development and commercialization of the Reducer, development of the Tiara and general corporate and working capital purposes. As part of the underwriter's compensation in the February 2019 Financing, the Company issued the underwriter warrants (the “February Broker Warrants”) to purchase in aggregate up to a 722,222 Common Shares, exercisable at a price per Common Share equal to $0.5625 for a period of three years following issuance.

On March 12, 2019, the Company announced that it had entered into Exchange Agreements with the holders of all of its outstanding Series A common share purchase warrants (the "Series A Warrants") and Series E common share purchase warrants (the "Series E Warrants") issued pursuant to the 2017 Financings, pursuant to which the Company issued an aggregate of approximately 496,239 Common Shares for the surrender and cancellation of all of the Series A Warrants and Series E Warrants outstanding, on the basis of 0.0085 of a Common Share for each Series A Warrant or Series E Warrant (the “Exchange”). Following completion of the Exchange, there are no longer any warrants remaining outstanding from the 2017 Financings.

On March 15, 2019, the Company completed an underwritten public offering (the “March 2019 Financing”) of 11,111,111 Common Shares, at a price of $0.45 per Common Share, for gross proceeds of approximately $5 million before deducting the underwriting commission and offering expenses payable by the Company. The Company intends to use the approximately $4.25 million net proceeds of the March 2019 Financing for the development and commercialization of the Reducer, development of the Tiara and general corporate and working capital purposes. As part of the underwriter's compensation in the March 2019 Financing, the Company issued the underwriter warrants (the “March Broker Warrants”, and together with the February Broker Warrants, the "Broker Warrants") to purchase in aggregate up to a 722,222 Common Shares, exercisable at a price per Common Share equal to $0.5625 for a period of three years following issuance.

On March 21, 2019, the Company announced that the Appeals Court in Munich rendered its decision with respect to the Company’s litigation with CardiAQ in Germany. The Appeals Court amended the decision of the German Court and dismissed the complaint of CardiAQ in full.

Updated Share Capital

As at March 19, 2019, all Series A Warrants, Series B warrants, Series C Warrants, Series D warrants, Series E Warrants and Series F warrants from the 2017 Financings have now been exercised or exchanged into Common Shares. Of the $32,750,000 aggregate principal amount of Notes issued pursuant to the 2017 Financings, only $10,825,000 aggregate principal amount of Notes remains outstanding.

As of March 19, 2019, the Company had 61,985,116 Common Shares issued and outstanding. The following securities are convertible into Common Shares: 3,682,469 stock options with a weighted average exercise price of $7.70, 1,444,444 Broker Warrants and $10,825,000 principal amount of Notes, which Notes could convert into 24,055,555 Common Shares (not taking into account the alternate conversion price or anti-dilution mechanisms). Our fully diluted share capital as of the same date is 91,167,584. Our fully diluted share capital, adjusted on the assumption that all of the outstanding Notes are converted using the alternate conversion price at the closing price on March 18, 2018, is 94,869,863.

26. AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the years ended December 31, 2018 (including comparatives) were approved by the the board of directors on March 21, 2019.

(signed) ***Chris Clark***

Chris Clark, Chief Financial Officer

(signed) ***Steve Rubin***

Steve Rubin, Chairman