Neovasc Inc.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2019, 2018 and 2017

(Expressed in U.S. dollars)

CONTENTS

GrantThornton

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, 2019, December 31, 2018 and December 31, 2017, the related consolidated statements of loss and comprehensive loss, changes in equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, December 31, 2018 and December 31, 2017 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Restatement of previously issued financial statements

As discussed in Note 23 to the consolidated financial statements, the Company has restated its 2018 and 2017 financial statements to correct misstatements.

Material uncertainty related to going concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company incurred a comprehensive loss of $33,618,494 during the year ended December 31, 2019, and as of that date, the Company’s liabilities exceeded its assets by $14,445,765. 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 consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated 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 consolidated 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 consolidated 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 consolidated 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 30, 2020 Chartered Professional Accountants

NEOVASC INC.

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

	Notes		2019		2018 As restated Note 23		2017 As restated Note 23
ASSETS							
Current assets							
Cash and cash equivalents	6	**$**	**5,292,833**	$	9,242,809	$	17,507,157
Accounts receivable	7		**715,696**		647,143		1,334,923
Finance lease receivable	8		**86,764**		-		-
Inventory	9		**618,650**		318,135		398,556
Research and development supplies	23		**671,845**		1,274,653		1,274,653
Prepaid expenses and other assets	10		**630,042**		591,236		802,366
Total current assets			**8,015,830**		12,073,976		21,317,655
Non-current assets							
Restricted cash	11		**462,874**		439,736		478,260
Right-of-use asset	12		**720,473**		-		-
Finance lease receivable	8		**138,690**		-		-
Property, plant and equipment	13		**767,973**		813,628		1,685,181
Total non-current assets			**2,090,010**		1,253,364		2,163,441
Total assets		**$**	**10,105,840**	$	13,327,340	$	23,481,096
LIABILITIES AND EQUITY							
Liabilities							
Current liabilities							
Accounts payable and accrued liabilities	14	**$**	**7,794,456**	$	4,610,560	$	1,844,955
Lease liabilities	16		**436,352**		-		-
2017 Convertible Notes	17		**5,400,189**		1,423,224		4,261,597
2019 Convertible Notes	17		**1,090,561**		-		-
Derivative liability from financing	17		**-**		-		19,997,345
Total current liabilities			**14,721,558**		6,033,784		26,103,897
Non-Current Liabilities							
Accrued liabilities	14		**1,186,601**		2,241,979		-
Lease liabilities	16		**468,527**		-		-
2017 Convertible Notes	17		**-**		13,194,112		15,745,962
2019 Convertible Notes	17		**8,174,919**		-		-
Derivative warrant liability from financing	17		**-**		190,303		16,831,685
Total non-current liabilities			**9,830,047**		15,626,394		32,577,647
Total liabilities		**$**	**24,551,605**	$	21,660,178	$	58,681,544
Equity							
Share capital	19	**$**	**328,460,681**	$	304,460,533	$	171,803,816
Contributed surplus	19		**29,766,225**		26,260,806		23,056,846
Accumulated other comprehensive loss			**(6,140,507)**		(7,653,028)		(6,643,436)
Deficit			**(366,532,164)**		(331,401,149)		(223,417,674)
Total equity			**(14,445,765)**		(8,332,838)		(35,200,448)
Total liabilities and equity		**$**	**10,105,840**	$	13,327,340	$	23,481,096

Going Concern and Uncertainty (see Note 1(b) and 5(d))
Subsequent Events (see Note 27)
Contingent liabilities and provisions (see Note 26)

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	**2019**	2018 As restated Note 23	2017 As restated Note 23
REVENUE	20	**$ 2,092,032**	$ 1,749,133	$ 5,389,014
COST OF GOODS SOLD		**458,436**	366,258	3,477,821
GROSS PROFIT		**1,633,596**	1,382,875	1,911,193
EXPENSES				
Selling expenses	22	**1,645,985**	1,353,165	886,226
General and administrative expenses	22	**10,013,732**	16,438,936	15,684,783
Product development and clinical trials expenses	22	**20,020,959**	16,001,464	16,214,439
		31,680,676	33,793,565	32,785,448
OPERATING LOSS		**(30,047,080)**	(32,410,690)	(30,874,255)
OTHER (EXPENSE)/INCOME				
Interest income		**184,912**	183,065	355,806
Interest expense		**(133,082)**	-	-
Impairment on right-of-use asset		**(104,544)**	-	-
Gain on sale of asset		**-**	238,907	-
Damages provision	15	**-**	-	(738,021)
Loss on foreign exchange		**(74,209)**	(175,054)	2,726,728
Unrealized (loss)/gain on derivative warrant liability from financing and convertible notes	17	**(3,235,591)**	(814,827)	10,732,089
Realized (loss)/gain on exercise of warrants and convertible notes	17	**(1,692,628)**	(28,003,594)	-
Amortization of deferred loss	17	**-**	(46,894,189)	(3,351,987)
		(5,055,142)	(75,465,692)	9,724,615
LOSS BEFORE TAX		**(35,102,222)**	(107,876,382)	(21,149,640)
Tax expense		**(28,793)**	(107,093)	(484,428)
LOSS FOR THE PERIOD		**$ (35,131,015)**	$ (107,983,475)	$ (21,634,068)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD				
Exchange difference on translation other than for damages provision		**-**	-	(1,950,396)
Fair market value changes in convertible notes due to changes in own credit risk		**1,512,521**	(1,009,592)	-
		1,512,521	(1,009,592)	(1,950,396)
LOSS AND OTHER COMPREHENSIVE LOSS FOR THE PERIOD		**$ (33,618,494)**	$ (108,993,067)	$ (23,584,464)
LOSS PER SHARE				
Basic and diluted loss per share	24	**$ (5.40)**	$ (76.26)	$ (265.37)

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, 2017		**$**	**168,712,673**	**$**	**22,301,437**	**$**	**(4,693,040)**	**$**	**(201,783,606)**	**$**	**(15,462,536)**
Issue of share capital on exercise of options	19(b)		1,964,086		(1,729,134)		-		-		234,952
Issue of share capital on exercise of 2017 Warrants	19(b)		1,127,057		-		-		-		1,127,057
Share-based payments	22		-		2,484,543		-		-		2,484,543
Transactions with owners during the year			3,091,143		755,409		-		-		3,846,552
Loss for the year			-		-		-		**(21,634,068)**		**(21,634,068)**
Other comprehensive loss for the year			-		-		**(1,950,396)**		-		**(1,950,396)**
Balance at December 31, 2017 as restated (Note 23)		**$**	**171,803,816**	**$**	**23,056,846**	**$**	**(6,643,436)**	**$**	**(223,417,674)**	**$**	**(35,200,448)**
Issue of share capital on exercise of options	19(b)		88,917		(88,917)		-		-		-
Issue of share capital on exercise of 2017 Warrants	19(b)		113,985,426		-		-		-		113,985,426
Issue of share capital on conversion of 2017 Notes	19(b)		18,582,374		-		-		-		18,582,374
Share-based payments	22		-		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			-		-		-		**(107,983,475)**		**(107,983,475)**
Other comprehensive loss for the year			-		-		**(1,009,592)**		-		**(1,009,592)**
Balance at December 31, 2018 as restated (Note 23)		**$**	**304,460,533**	**$**	**26,260,806**	**$**	**(7,653,028)**	**$**	**(331,401,149)**	**$**	**(8,332,838)**
Issue of share capital on public offering (net of share issuance costs)	19(b)		7,802,417		-		-		-		7,802,417
Issue of share capital on private placement (net of share issuance costs)	19(b)		1,664,662		-		-		-		1,664,662
Issue of share capital on exercise of 2017 Warrants	19(b)		1,437,131		-		-		-		1,437,131
Issue of share capital on conversion of 2017 Notes	19(b)		13,095,938		-		-		-		13,095,938
Issue of Broker Warrants	19(f)		-		315,611		-		-		315,611
Share-based payments	22		-		3,189,808		-		-		3,189,808
Transactions with owners during the year			24,000,148		3,505,419		-		-		27,505,567
Loss for the year			-		-		-		**(35,131,015)**		**(35,131,015)**
Other comprehensive loss for the year			-		-		**1,512,521**		-		**1,512,521**
Balance at December 31, 2019		**$**	**328,460,681**	**$**	**29,766,225**	**$**	**(6,140,507)**	**$**	**(366,532,164)**	**$**	**(14,445,765)**

See Accompanying Notes to the Consolidated Financial Statements

NEOVASC INC.

Consolidated Statements of Cash Flows

For the years ended December 31,

(Expressed in U.S. dollars)

	Notes	2019	2018 As restated Note 23	2017 As restated Note 23
OPERATING ACTIVITIES				
Loss for the period		**$ (35,131,015)**	$ (107,983,475)	$ (21,634,068)
Adjustments for:				
Depreciation	22	**641,621**	384,126	534,545
Share-based payments	22	**3,189,808**	3,292,877	2,484,543
Damages provision	15	**-**	-	738,021
Impairment of right-of-use asset	12	**75,407**	-	-
Accrued employee termination expenses		**-**	373,171	-
Gain on sale of assets		**-**	(238,907)	-
Loss on disposal of assets		**-**	51,106	-
Accretion on collaboration, license and settlement agreements provision		**298,849**	4,129,758	-
Unrealized loss/(gain) on derivative liability and convertible notes	17	**3,235,591**	814,827	(10,732,089)
Realized loss/(gain) on exercise of warrants and convertible notes	19	**1,692,628**	28,003,594	-
Amortization of deferred loss	17	**-**	46,894,189	3,351,987
Write-down accounts receivable		**64,600**	489,449	-
Income tax expense		**28,793**	107,093	484,428
Interest income and expenses		**(56,000)**	(183,065)	(355,806)
		(25,959,718)	(23,865,257)	(25,128,439)
Net change in non-cash working capital items:				
Accounts receivable		**(133,153)**	198,331	1,907,768
Inventory		**(359,908)**	139,814	(174,392)
Research and development supplies		**662,201**	(59,393)	(1,274,653)
Prepaid expenses and other assets		**(167,336)**	282,091	(235,366)
Accounts payable and accrued liabilities		**3,979,669**	504,655	(1,046,664)
Damages provision	15	**-**	-	(112,519,117)
Payment of amounts due on collaboration, license and settlement agreements		**(2,150,000)**	-	-
		1,831,473	1,065,498	(113,342,424)
Income tax and Interest paid and received:				
Income tax paid		**(28,793)**	183,065	(255,118)
Interest received		**184,912**	(178,054)	112,036
		156,119	5,011	(143,082)
Net cash applied to operating activities		**(23,972,126)**	(22,794,748)	(138,613,945)
INVESTING ACTIVITES				
(Increase)/decrease in restricted cash		**(23,138)**	38,524	2,520
Increase in cash held in escrow		**-**	-	70,000,000
Purchase of property, plant and equipment	13	**(243,501)**	(190,382)	(505,667)
Proceeds from sale of assets		**-**	865,610	-
Net cash applied to investing activities		**(266,639)**	713,752	69,496,853
FINANCING ACTIVITIES				
Proceeds from exercise of warrants	19(b)	**1,200,400**	13,816,648	18,750
Proceeds from public offerings	19(b)	**8,118,030**	-	-
Proceeds from private placement	19(b)	**11,483,496**	-	-
Proceeds from financing from fees		**-**	-	65,324,997
Proceeds from exercise of options		**-**	-	234,952
Payment of lease obligation		**(513,137)**	-	-
Net cash from financing activities		**20,288,789**	13,816,648	65,578,699
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(3,949,976)**	(8,264,348)	(3,538,393)
CASH AND CASH EQUIVALENTS				
Beginning of the period		**9,242,809**	17,507,157	22,954,571
Exchange difference on cash and cash equivalents		**-**	-	(1,909,021)
End of the period		**$ 5,292,833**	$ 9,242,809	$ 17,507,157
Represented by:				
Cash and cash equivalents	6	**$ 5,292,833**	$ 9,242,809	$ 17,507,157

See Accompanying Notes to the Consolidated Financial Statements

1. INCORPORATION AND GOING CONCERN

(a) Business description

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

The consolidated financial statements of the Company as at December 31, 2019 and for the years ended December 31, 2019, 2018 and 2017 comprise the Company and its subsidiaries, all of which are wholly owned. The Company's principal place of business is located at Suite 5138 – 13562 Maycrest Way, Richmond, British Columbia, V6V 2J7 and the Company's registered office is located at Suite 2600 – 595 Burrard Street, Vancouver, British Columbia, V7X 1L3, Canada. The Company's shares are listed on the Toronto Stock Exchange (TSX: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 Neovasc Reducer™ ("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™ ("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, 2019, the Company had approximately $5.29 million in cash and cash equivalents. On January 6, 2020, the Company secured a registered direct offering (the "January 2020 Financing") for aggregate gross proceeds of $10 million before deducting fees and expenses (see Subsequent Event Note 27). If the 2017 Notes are converted prior to the maturity date, the Company expects that its cash on hand as at December 31, 2019 and including the January 2020 Financing is sufficient to sustain operations until approximately August 2020 at the current burn rate. If the 2017 Notes are paid out on the maturity date of May 17, 2020, the Company expects that it will have sufficient cash on hand to sustain operations until June 30, 2020 at the current burn rate. Given the current nature of the Company's capital structure, the Company can give no assurance that it will be able to obtain the additional funds needed, on terms agreeable to the Company, or at all. These circumstances indicate the existence of material uncertainty and cast substantial doubt about the Company's ability to continue as a going concern.

These 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 in the capital of the Company ("Common Shares") on the basis of one post-consolidation Common Share for every one hundred pre-consolidation Common Shares. On June 25, 2019, the Company effected a share consolidation (reverse stock split) of its issued and outstanding Common Shares the basis of one post-consolidation Common Share for every ten pre-consolidation Common Shares. All references in these consolidated financial statements to Common Shares and options have been retroactively adjusted to reflect the share consolidations. The number of 2017 Warrants (as defined below) and aggregate principal amount of 2017 Notes and 2019 Notes (as defined below) were not affected by the consolidations, but the Common Shares issuable upon exercise of the 2017 Warrants or conversion of the 2017 Notes and the 2019 Notes will be adjusted proportionally to each share consolidation ratio.

(d) Nasdaq listing

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. In accordance with Nasdaq Listing Rule 5810(c)(3)(A), the Company was provided 180 calendar days, or until July 15, 2019, to regain compliance. The Company received confirmation of compliance in respect of this deficiency on July 17, 2019.

1. INCORPORATION AND GOING CONCERN (continued)

(d) Nasdaq listing (continued)

On August 22, 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. In accordance with Nasdaq Listing Rule 5810(c)(3)(C), the Company was provided 180 calendar days, or until February 17, 2020, to regain compliance (see Subsequent Events Note 27).

Nasdaq 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 Common Shares even if the Common Shares 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 maintain and/or regain compliance with the Nasdaq Marketplace Rules for continued listing. A delisting from the Nasdaq Capital Market would result in an event of default under the 2017 Notes.

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.

(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. Reducer research and development supplies are expensed as the supplies are used.

2. BASIS OF PREPARATION (continued)

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 and making assumptions about them.

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.

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 and May 2019 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, 2019 are disclosed in Note 17.

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.

(b) Financial Instruments

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, 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.

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 notes 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) 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.

(e) 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.

(f) 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.

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.

(g) Impairment of assets

Financial instruments

The Company uses the expected credit loss (ECL) model for calculating impairment of financial assets and recognizes expected credit losses as loss allowances for assets measured at amortized cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, which is determined based on historical information, external indicators, and forward-looking information through use of a provision matrix.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the assets.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of assets (continued)

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.

(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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Revenue recognition (continued)

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.

(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

Prior to January 1, 2019, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income taxes (continued)

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 and share units (see Note 3(q)).

Deficit includes all current and prior year losses.

(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 19 (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.

The Company uses a fair value-based method of accounting for restricted share units (“RSUs”) which are assumed to settle on an equity basis. The Company grants restricted share units to the Company’s directors, officers, employees and consultants (see Note 19(d)).

The fair value of the RSUs awarded to employees, directors, officers and service providers is measured at market 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 restricted share units. The cost is recorded over the vesting period of the award to the same expense category of the award’s recipients compensation costs and the corresponding entry is recorded in equity.

(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.

(Expressed in U.S. dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Adoption of new standards

Accounting standard issued and effective January 1, 2019

IFRS 16 - Leases

IFRS 16 ‘Leases’ replaces IAS 17 ‘Leases’ along with three Interpretations (IFRIC 4 ‘Determining whether an Arrangement contains a Lease’, SIC 15 ‘Operating Leases-Incentives’ and SIC 27 ‘Evaluating the Substance of Transactions Involving the Legal Form of a Lease’). The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognized in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Company has elected to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being January 1, 2019.

At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

The Company performed an impairment review on the right-of-use assets at the date of initial application.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Company has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 10%.

The Company has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The following is a reconciliation of total operating lease commitments at December 31, 2018 to the lease liabilities recognized at January 1, 2019:

Total operating lease commitments disclosed at December 31, 2018	**$**	**1,431,188**
Recognition exemptions:		
Leases of low value assets		-
Leases with remaining lease term of less than 12 months		-
Variable lease payments not recognized		-
Operating lease liabilities before discounting		1,431,188
Discounted using incremental borrowing rate		(142,082)
Operating lease liabilities		1,289,106
Total lease liabilities recognized under IFRS 16 at January 1, 2019	**$**	**1,289,106**

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Adoption of new standards (continued)

For any new contracts entered into on or after January 1, 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

a. the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
b. the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
c. the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At the lease commencement date, the Company recognizes a right-of-use asset and a lease liability on the statement of financial position.

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available. If the interest rate implicit in the lease is not readily available, the Company discounts using the Company’s incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included under non-current assets and lease liabilities have been included under current and non-current liabilities.

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:

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

The adoption of IFRIC 23 on January 1, 2019 has not had a significant impact on these consolidated financial statements.

(Expressed in U.S. dollars)

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, 2019, 2018 and 2017 there were no changes in the Company's capital management policy.

The capital of the Company is comprised of:

		2019		2018 As restated Note 23		2017 As restated Note 23
2017 Convertible Notes	**$**	**5,400,189**	$	14,617,336	$	20,007,559
2019 Convertible Notes		**9,265,480**		-		-
Equity		**(14,445,765)**		(8,332,838)		(35,200,448)
Capital	**$**	**(219,904)**	$	6,284,498	$	(15,192,889)

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, 2019, 2018 and 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				
2017 Convertible Notes	$ -	$ -	$ 20,007,559	$ 20,007,559
Derivative warrant financial liability from financing	$ -	$ -	$ 36,829,030	$ 36,829,030

5. FINANCIAL RISK MANAGEMENT (continued)

(a) Fair value estimation (continued)

As at December 31, 2018:

	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss				
2017 Convertible Notes	$ -	$ -	$ 14,617,336	$ 14,617,336
Derivative warrant financial liability from financing	$ -	$ -	$ 190,303	$ 190,303

As at December 31, 2019:

	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss				
2017 Convertible Notes	$ -	$ -	$ 5,400,189	$ 5,400,189
2019 Convertible Notes	$ -	$ -	$ 9,265,480	$ 9,265,480

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

	Note	**December 31, 2019**	December 31, 2018	December 31, 2017
Amortized cost				
Cash and cash equivalents	6	**$ 5,292,833**	$ 9,242,809	$ 17,507,157
Accounts receivable	7	**715,696**	647,143	1,334,923
Restricted cash	11	**462,874**	439,736	478,260
		$ 6,471,403	$ 10,329,688	$ 19,320,340
Other financial liabilities at amortized cost				
Accounts payable and accrued liabilities (current)	14	**$ 7,794,456**	$ 4,610,560	$ 1,844,955
Accrued liabilities (non-current)	14	**1,186,601**	2,241,979	-
Financial liabilities at fair value through profit and loss				
2017 Convertible Notes (current)	17	**$ 5,400,189**	1,423,224	4,261,597
2019 Convertible Notes (current)	17	**1,090,561**	-	-
Derivative liability from financing (current)		**-**	-	19,997,345
2017 Convertible Notes (non-current)	17	**-**	13,194,112	15,745,962
2019 Convertible Notes (non-current)	17	**8,174,919**	-	-
Derivative warrant liability from financing (non-current)		**-**	190,303	16,831,685
		$ 23,646,726	$ 21,660,178	$ 58,681,544

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

(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 30% of the revenue for the year ended December 31, 2019 (year ended December 2018 and 2017: 23% and 65%, 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, 2019 by approximately $6,288 (as at December 30, 2018 and 2017: $6,000 and $50,000, 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 $80,654 and $176,569, respectively, as at December 31, 2019 (as at December 30, 2018 $13,000 and $30,000 and as at December 31 2017: $32,000 and $10,000). A similar change in foreign currency denominated cash and cash equivalents, and restricted cash, which are denominated in Canadian dollars and Euros will impact net income by approximately $5,254 and $2,780, respectively, as at December 31, 2019 (as at December 30, 2018 $4,837 and $5,855 and as at December 31 2017: $7,011 and $44,792). The Company does not hedge its foreign exchange risk.

(Expressed in U.S. dollars)

5. FINANCIAL RISK MANAGEMENT (continued)

(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, accounts payable, 2017 Notes that do not accrue interest or 2019 Notes that have fixed interest terms.

(d) Liquidity risk

As at December 31, 2019, the Company had $5,292,833 in cash and cash equivalents as compared to cash and cash equivalents of $9,242,809 at December 31, 2018. The Company is dependent on the profitable commercialization of its products or obtaining additional debt or equity financing to fund ongoing operations until profitability is achieved.

The Company monitors its cash flow on a monthly basis and compares actual performance to the budget for the period. The Company expects that its cash on hand as at December 31, 2019 and including the January 2020 Financing (see Subsequent Note 27) is sufficient to sustain operations until approximately August 2020 at the current burn rate, if the 2017 Notes are converted prior to the maturity date. If the 2017 Notes are paid out on the maturity date of May 17, 2020, the Company expects that it will have sufficient cash on hand to sustain operations until June 30, 2020 at the current burn rate. The Company may obtain additional debt or equity financing in future periods. 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.

Trade payables were aged as follows as at December 31, 2019 and do not include accrued liabilities. All trades payables are current liabilities:

		Total
Current	$	**1,534,577**
31-60 days		**825,097**
Over 60 days		**1,633,529**
	$	**3,993,203**

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities as at December 31, 2019:

		Within One Year		Between One and Two Years
Collaboration, license and settlement agreements (undiscounted)	$	**1,250,000**	$	**1,250,000**
	$	**1,250,000**	$	**1,250,000**

(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, 2019 is $597,505 (as at December 31, 2018 and 2017: $637,421 and $1,201,292, respectively). As at December 31, 2019, the Company had $148,814 (as at December 31, 2018 and 2017: $311,642 and $588,282, respectively) of trade accounts receivable that were overdue according to the customers' credit terms. During the year ended December 31, 2019 the Company wrote down $64,600, of accounts receivable owed by customers (year ended December 31, 2018 and 2017: $489,449 and $26,931 respectively).

The Company may also have credit risk related to its cash and cash equivalents and restricted cash, with a maximum exposure of $5,755,707 as at December 31, 2019 (as at December 31, 2018 and 2017: $9,682,545 and $17,985,417,respectively). The Company minimizes its risk to cash and cash equivalents and restricted cash by maintaining the majority of its balances with Canadian Chartered Banks.

(Expressed in U.S. dollars)

6. CASH AND CASH EQUIVALENTS

	December 31, 2019	December 31, 2018	December 31, 2017
Cash held in:			
United States dollars	$ 4,489,501	$ 8,173,582	$ 16,989,119
Canadian dollars	525,371	483,730	70,112
Euros	277,961	585,497	447,926
	$ 5,292,833	$ 9,242,809	$ 17,507,157

7. ACCOUNTS RECEIVABLE

	December 31, 2019	December 31, 2018	December 31, 2017
Trade accounts receivable	$ 597,505	$ 637,421	$ 1,201,292
Other accounts receivable	118,191	9,722	133,631
	$ 715,696	$ 647,143	$ 1,334,923

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

	December 31, 2019	December 31, 2018	December 31, 2017
Not past due	$ 472,257	$ 361,469	$ 693,010
Past due 0 - 30 days	14,139	18,614	255,348
30 - 60 days	20,000	-	79,600
60 - 90 days	-	54,428	4,334
90 – 120 days	-	-	139,000
Over 120 days	114,676	238,600	110,000
Loss Allowance	(23,567)	(35,690)	(80,000)
	$ 597,505	$ 637,421	$ 1,201,292

All of the Company's trade and other receivables have been reviewed for impairment. During the year ended December 31, 2019, the Company wrote off $64,600 of accounts receivable (year ended December 31, 2018 and 2017: $489,449 and $26,931 respectively).

8. FINANCE LEASE RECEIVABLE

The Company entered into a sublease agreement which has been recognized as a finance lease. Finance lease receivables are presented in the statement of financial position as follows:

	December 31, 2019	December 31, 2018	December 31, 2017
Current	$ 86,764	$ -	$ -
Non-current	138,690	-	-
	$ 225,454	$ -	$ -

The following is a detailed maturity analysis of the undiscounted finance lease receivables as at December 31, 2019:

	Total
Less than 1 year	$ 105,404
1-2 years	105,404
2-3 years	43,918
3-4 years	-
4-5 years	-
Total undiscounted finance lease receivables	$ 254,726

(Expressed in U.S. dollars)

9. INVENTORY

	December 31, 2019	December 31, 2018 As restated Note 23	December 31, 2017 As restated Note 23
Raw materials	**$ 500,263**	$ 301,693	$ 175,487
Work in progress	**-**	2,435	171,599
Finished goods	**118,387**	14,007	51,470
	$ 618,650	$ 318,135	$ 398,556
Research and development supplies	**$ 671,845**	$ 1,274,653	$ 1,274,653

During the years ended December 31, 2019, 2018 and 2017 the Company did not write down any inventory. During the year ended December 31, 2019, $458,436 of inventory was expensed in cost of goods sold (year ended December 31, 2018 and 2017: $366,258 and $752,810 respectively).

10. PREPAID EXPENSES AND OTHER ASSETS

	December 31, 2019	December 31, 2018	December 31, 2017
Prepaid expenses	**$ 7,140**	$ -	$ 20,041
Prepaid insurance	**269,262**	190,849	125,043
Deposits on rental agreements	**119,660**	276,500	308,492
Retainers for professional services	**23,000**	5,593	324,062
Other prepaid expenses and other assets	**210,980**	118,294	24,728
	$ 630,042	$ 591,236	$ 802,366

11. RESTRICTED CASH

	December 31, 2019	December 31, 2018	December 31, 2017
Restricted cash	**$ 462,874**	$ 439,736	$ 478,260

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. RIGHT OF USE ASSET

		Total
COST		
Balance at January 1, 2019, on adoption of IFRS 16	$	**1,407,704**
Impairment of right-of-use asset		**(231,773)**
Impairment reversal		**156,366**
Sublease		**(274,965)**
Balance as at December 31, 2019	$	**1,057,333**
ACCUMULATED DEPRECIATION		
Balance at January 1, 2019, on adoption of IFRS 16		**-**
Depreciation for the period		**336,860**
Balance as at December 31, 2019	$	**336,860**
NET BOOK VALUE		
As at January 1, 2019, on adoption of IFRS 16	$	**1,407,704**
As at December 31, 2019	$	**720,473**

The Company's right-of-use asset relates to the lease of buildings.

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, purchase options or escalation clauses. The Company entered into a sublease agreement for a portion of office space in September 2019. The term for the sublease agreement was 32 months commencing on October 7, 2019.

The Company entered into an agreement for additional office space in September 2014 in Minneapolis. The agreement did not contain any contingent rent clauses, 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. In August 2019, the Company renewed the lease for an additional 36 months commencing June 1, 2020.

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 December 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.

(Expressed in U.S. dollars)

13. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Leasehold improvements	Production & development equipment	Computer hardware	Computer software	Office equipment	Total
COST								
Balance at January 1, 2017	**$ 231,901**	**$ 407,555**	**$ 38,648**	**$ 1,388,117**	**$ 429,147**	**$ 425,142**	**$ 284,771**	**$ 3,205,281**
Additions during the year	-	-	127,181	146,388	77,518	145,424	9,156	505,667
Cumulative translation adjustment	17,592	30,916	4,109	115,223	37,257	41,707	22,158	268,962
Balance at December 31, 2017	**$ 249,493**	**$ 438,471**	**$ 169,938**	**$ 1,649,728**	**$ 543,922**	**$ 612,273**	**$ 316,085**	**$ 3,979,910**
Additions during the 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**
Additions during the year	-	-	-	203,169	-	40,332	-	243,501
Disposals during the year	-	-	-	-	-	-	-	-
Balance as at December 31, 2019	**$ -**	**$ -**	**$ 169,938**	**$ 1,692,127**	**$ 543,922**	**$ 693,404**	**$ 316,085**	**$ 3,415,476**
ACCUMULATED DEPRECIATION								
Balance at January 1, 2017	**$ -**	**$ 34,900**	**$ 26,750**	**$ 683,803**	**$ 297,199**	**$ 397,476**	**$ 179,518**	**$ 1,619,646**
Depreciation for the year	-	15,484	35,702	254,794	64,166	140,652	23,747	534,545
Cumulative translation adjustment	-	3,180	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 at December 31, 2018	**$ -**	**$ -**	**$ 89,855**	**$ 951,605**	**$ 433,443**	**$ 646,072**	**$ 237,372**	**$ 2,358,347**
Depreciation for the year	-	-	18,132	184,429	33,144	40,371	15,744	291,820
Disposals during the year	-	-	-	(2,664)	-	-	-	(2,664)
Balance as at December 31, 2019	**$ -**	**$ -**	**$ 107,987**	**$ 1,133,370**	**$ 466,587**	**$ 686,443**	**$ 253,116**	**$ 2,647,503**
CARRYING AMOUNTS								
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**
As at December 31, 2019	**$ -**	**$ -**	**$ 61,951**	**$ 558,757**	**$ 77,335**	**$ 6,961**	**$ 62,969**	**$ 767,973**

(Expressed in U.S. dollars)

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2019	December 31, 2018	December 31, 2017
Current accounts payable and accrued liabilities			
Trade payables	**$ 3,993,203**	$ 898,711	$ 1,256,795
Accrued liabilities	**2,163,886**	1,117,673	346,984
Accrued vacation	**211,168**	142,730	157,198
Accrued employee termination expenses	**13,887**	373,171	-
Other accounts payable	**320,306**	190,496	83,978
Collaboration, license and settlement agreements provision	**1,092,006**	1,887,779	-
Total current accounts payable and accrued liabilities	**$ 7,794,456**	$ 4,610,560	$ 1,844,955
Non-current accrued liabilities			
Non-current collaboration, license and settlement agreements provision	**1,186,601**	2,241,979	-
	$ 1,186,601	$ 2,241,979	$ -
Total accounts payable and accrued liabilities	**$ 8,981,057**	$ 6,852,539	$ 1,844,955

Included in accounts payable and accrued liabilities are $893,902 related to settlement charges as part of a collaboration agreement and $1,384,705 related to a settlement provision (see Note 25). This represents the calculated net present value of the amounts set out per the agreement with payments due over the next two years.

15. DAMAGES PROVISION

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.

16. LEASE LIABILITY

	Total
Balance at January 1, 2019, on adoption of IFRS 16	**$ 1,289,106**
Interest expense	**128,911**
Lease payments	**(513,138)**
	$ 904,879
Lease Liability, current	**$ 436,352**
Lease Liability, non-current	**$ 468,527**
The maturity analysis of the undiscounted contractual balances of the lease liabilities is as follows:	
In one year or less	**$ 526,839**
In more than one year, but not more than five years	**534,668**
	$ 1,061,507

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17. DERIVATIVE WARRANT LIABILITY FROM FINANCING AND CONVERTIBLE NOTE

(a) Derivative Warrant Liability from Financing

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) 0.001 Common Share
(ii) one Series A Common Share purchase warrant of the Company exercisable for 0.001 Common Shares at an exercise price of $1,610 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 exercisable for 0.001 Common Shares at an exercise price of $1,610 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 0.001 Common Shares, one Series A Warrant and one Series B Warrant.

Each Series B Unit was comprised of:
(i) either 0.001 Common Shares or one Series D Common Share purchase warrant of the Company exercisable for 0.001 Common Shares (each, a "Series D Warrant") at an exercise price of $1,460 per Series D Warrant Share, all of which were be pre-funded except for a nominal exercise price of $0.001 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 with each warrant exercisable for 0.001 Common Shares at an exercise price of $1,610 per Series F Warrant Share for a period of two years following issuance (each, a "Series F Warrant").

15,493 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 3,573 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. 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 were not determined using a valuation that only used data from observable markets, the loss on initial recognition has been recognized in income over the expected term of the instruments on a straight-line basis depending on the term of the warrants.

(b) 2017 Convertible Notes

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 "2017 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 2017 Notes were issued with an original issue price of $850 per $1,000 principal amount of note. The 2017 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 2017 Notes amended certain terms of the 2017 Notes, including a one-year extension of the maturity date of the 2017 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 2017 Notes would automatically be increased to 15% per annum. Interest on the 2017 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.

17. DERIVATIVE WARRANT LIABILITY FROM FINANCING AND CONVERTIBLE NOTES (continued)

(b) 2017 Convertible Notes (continued)

The conversion option contained within the 2017 Notes contains similar price adjustment characteristics to certain of the warrants, which precludes the 2017 Notes from being recognized within equity. The 2017 Notes contain a future-priced conversion mechanism that allows the holder of a 2017 Notes 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. The 2017 Notes are also subject to full ratchet anti-dilution provisions in certain circumstances.

Accordingly, the Company has elected to measure the 2017 Notes at FVTPL. The Series E Warrants are also classified as derivative financial liabilities and measured at 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 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, 2019 the loss on initial recognition has been fully amortized.

(c) 2019 Convertible Notes

On May 16, 2019, the Company completed a private placement of (i) 15% original issue discount convertible notes (“2019 Notes”) with a face value of $11.5 million, for gross proceeds to the Company of $9,775,000, and (ii) 334,951 common shares of the Company at a price of $5.15 per Common Share, for gross proceeds to the Company of $1,725,000.

The 2019 Notes has the following key terms:

- For the first year after the closing date, interest at a rate of 8% of which 5% is payable in cash on or about May 17, 2020 (when the existing 2017 Notes issued by the Company mature). The remainder is deferred and will be due on maturity of the 2019 Notes.
- After the first year and until maturity, interest at a rate of 10% of which 7% is payable in cash at the end of May and November each year. The remainder is deferred and will be due on maturity of the 2019 Notes.
- The 2019 Notes were issued at an original discount of $1.725 million. A separate subscription for common shares of the Company by the holder of the 2019 Notes was made for this amount (at market price) concurrent with the issuance of the 2019 Notes.
- The Company has a prepayment option whereby it may voluntarily prepay the 2019 Notes prior to maturity. Prepayment penalties of 3% (if prepaid prior to the 1st anniversary of issuance), 2% (if prepaid between the 1st and 2nd anniversaries of issuance) and 1% (if prepaid after the 2nd anniversary) apply.
- The 2019 Notes are convertible into common shares of the Company at the option of the holder (however, the holder may not own > 19.99% of the total outstanding common shares of the Company as a result of the conversion). The conversion price fluctuates from $7.50 per common share (prior to the 2nd anniversary of issuance) to $8.50 between the 2nd and 3rd anniversaries of issuance to $9.70 after the 3rd anniversary of issuance. The conversion price would also be altered subject to certain anti-dilution provisions.

Accordingly, the 2019 Notes contain two embedded derivatives: the conversion option and the prepayment option. The fair values of the 2019 Notes were calculated using the Cox Ross Rubinstein binomial tree model and have been classified as level 3 in the fair value hierarchy.

(Expressed in U.S. dollars)

17. DERIVATIVE WARRANT LIABILITY FROM FINANCING AND CONVERTIBLE NOTES (continued)

(d) 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 2017 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 December 31, 2019, 2018 and 2017 are summarized below:

Valuation Date	**December 31, 2019**	December 31, 2018	December 31, 2017
Price of Common Shares	**$ 5.41**	$ 6.03	$ 600.00
Dividend Yield	**0%**	0%	0%
Historical volatility of Common Shares	**129.54%**	141.96%	121.70%
Historical volatility of index	**11.65%**	15.37%	14.43%
Volatility input	**70.59%**	78.67%	68.07%
Risk-free rate	**1.79%**	2.52%	2.20%
Credit spread	**23.00%**	24.51%	34.24%

The 2019 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 at December 31, 2019 are summarized below:

Valuation Date	**December 31, 2019**	May 16, 2019
Price of Common Shares	**$ 5.41**	$ 49.46
Dividend Yield	**0%**	0%
Historical volatility of Common Shares	**124.77%**	142.38%
Historical volatility of index	**13.76%**	15.66%
Volatility input	**69.26%**	79.02%
Risk-free rate	**1.65%**	2.13%
Credit spread	**27.15%**	19.64%

(Expressed in U.S. dollars)

17. DERIVATIVE WARRANT LIABILITY FROM FINANCING AND CONVERTIBLE NOTES (continued)

(d) Warrants and Convertible Notes Model (continued)

The carrying amounts for the derivative warrant liability from financing 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**
Less:				
Exercise of 822,192 Series C Warrants	(5,638)	-	-	**(5,638)**
Fair value adjustment, March 31, 2019	(5,575)	(5,253)	(6,677)	**(17,505)**
Cancellation of 35,950,340 Series A Warrants	(24,480)	(77,270)	-	**(101,750)**
Cancellation of 22,431,506 Series E Warrants	-	-	(65,410)	**(65,410)**
Balance, derivative warrant liability from financing December 31, 2019	$ -	$ -	$ -	**$ -**

(Expressed in U.S. dollars)

17. DERIVATIVE FINANCIAL LIABILITY FROM FINANCING AND CONVERTIBLE NOTES (continued)

(d) Warrants and Convertible Notes Model (continued)

The carrying amounts for the 2017 Notes and 2019 Notes are as follows:

	2017 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**
Less:	
Exercise of 4,285,000 convertible notes	(4,188,713)
Fair value adjustment, March 31, 2019	825,047
Balance, convertible notes March 31, 2019	**$ 11,253,670**
Less:	
Exercise of 3,536,000 convertible notes	(4,323,427)
Fair value adjustment, June 30, 2019	2,033,280
Balance, convertible notes June 30, 2019	**$ 8,963,523**
Less:	
Exercise of 415,000 convertible notes	(497,430)
Fair value adjustment, September 30, 2019	(393,119)
Balance, convertible notes September 30, 2019	**$ 8,072,974**
Less:	
Exercise of 2,961,000 convertible notes	(4,086,368)
Fair value adjustment, December 31, 2019	1,413,583
Balance, convertible notes December 31, 2019	**$ 5,400,189**
2017 Convertible Notes, current	**$ 5,400,189**
2017 Convertible Notes, non-current	**$ -**

	2019 Convertible Notes
Fair value, May 16, 2019	$ 9,775,000
Fair value adjustment, June 30, 2019	$ (732,631)
Balance, convertible notes June 30, 2019	**$ 9,042,369**
Less:	
Fair value adjustment, September 30, 2019	13,319
Balance, convertible notes September 30, 2019	**$ 9,055,688**
Less:	
Fair value adjustment, December 31, 2019	209,792
Balance, convertible notes December 31, 2019	**$ 9,265,480**
2019 Convertible Notes, current	**$ 1,090,561**
2019 Convertible Notes, non-current	**$ 8,174,919**

(Expressed in U.S. dollars)

18. 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,		
	2019	2018 As restated Note 23	2017 As restated Note 23
Loss before income taxes	**$ (35,102,222)**	$ (107,876,382)	$ (21,149,640)
Statutory tax rate	**27.00%**	27.00%	26.00%
Recovery of income taxes based on the combined Canadian federal and provincial statutory rates	**(9,477,600)**	(29,126,623)	(5,498,906)
Share-based remuneration	**861,248**	1,073,142	650,335
Effect of rate change	**-**	-	(2,344,122)
Effect of historical adjustments	**-**	(16,036)	(331,410)
Foreign exchange adjustment	**-**	-	(28,668)
Other permanent differences	**190,096**	20,930,238	(1,798,205)
Unrecognized deferred tax benefits	**8,464,437**	7,183,316	9,670,642
Difference in tax rates between foreign jurisdictions and Canada	**(9,389)**	63,056	164,762
Income tax expense	**$ 28,793**	$ 107,093	$ 484,428

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

	For the years ended December 31,		
	2019	2018	2017
Current tax	**$ 28,793**	$ 107,093	$ 484,428
Deferred tax	**-**	-	-
Income tax expense	**$ 28,793**	$ 107,093	$ 484,428

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:

	For the years ended December 31,		
Deferred tax assets	**2019**	2018	2017
Investment tax credits	**$ 1,951,937**	$ 2,525,545	$ 3,108,576
Capital assets	**118,033**	182,385	500,445
Share issue expenses	**1,094,158**	1,198,653	1,774,820
Non-capital loss carry forwards	**73,415,224**	65,556,024	56,627,473
Foreign exchange	**-**	5,453	5,500
Research and development expenditures	**-**	-	265,260
Deferred compensation	**32,342**	22,232	31,387
	$ 76,611,694	$ 69,490,292	$ 62,313,461
Tax attributes not Recognized	**$ (76,611,694)**	$ (69,490,292)	$ (62,313,461)

The Company has loss carry forward balances for income tax purposes of approximately $265,133,097 that are available to reduce taxable income in Canada in the future periods, if any, expiring at various times through to the year 2039. The Company also has investment tax credits of approximately $2,416,825 available to reduce income taxes in the future periods, expiring at various times through to the year 2039.

(Expressed in U.S. dollars)

19. 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. We may issue our Preferred Shares from time to time in one or more series. The terms of each series of Preferred Shares, including the number of shares, the designation, rights, preferences, privileges, priorities, restrictions, conditions and limitations, will be determined at the time of creation of each such series by our board of directors, without shareholder approval, provided that all Preferred Shares will rank equally within their class as to dividends and distributions in the event of our dissolution, liquidation or winding-up.

(b) Issued and outstanding

All share and per share amounts are net of share issuance costs and have been adjusted to retroactively reflect the impact of the September 18, 2018 reverse stock split on a 1 for 100 basis and the June 25, 2019 reverse stock split on a 1 for 10 basis.

	Common Shares			Contributed
	Number		Amount	Surplus
Balance, January 1, 2017	**78,683**	**$**	**168,712,673**	**$ 22,301,437**
Common Shares issued from Series A Units and Series B Units (i)	22,102		-	-
Common Shares issued from exercise of Series D Warrants (ii)	1,875		1,127,057	-
Common Shares issued for cash on exercise of options	256		1,964,086	(1,729,134)
Share-based payments	-		-	2,484,543
Balance, December 31, 2017	**102,916**	**$**	**171,803,816**	**$ 23,056,846**
Common Shares issued from exercise of Series B Warrants (iii)	1,315,281		54,119,300	-
Common Shares issued from exercise of Series C Warrants (iv)	9,452		15,854,206	-
Common Shares issued from exercise of Series D Warrants (v)	1,699		1,021,183	-
Common Shares issued from exercise of Series F Warrants (vi)	295,740		42,990,737	-
Common Shares issued from exercise of 2017 Notes (vii)	1,076,583		18,582,374	-
Common Shares issued for cash on exercise of options	49		88,917	(88,917)
Share-based payments	-		-	3,292,877
Balance, December 31, 2018	**2,801,720**	**$**	**304,460,533**	**$ 26,260,806**
Common Shares issued from public offerings (viii)	2,222,222		7,802,417	315,611
Common Shares issued from private placement (ix)	334,951		1,664,662	-
Common Shares issued from exercise Series B Warrants (x)	223,304		16,931	-
Common Shares issued from exercise of Series C Warrants (xi)	822		1,186,027	-
Common Shares issued from exercise of 2017 Notes (xii)	3,074,136		13,095,938	-
Common Shares issued from exchange of Series A and Series E Warrants (xiii)	49,624		234,173	-
Share-based payments	-		-	3,189,808
Balance, December 31, 2019	**8,706,779**	**$**	**328,460,681**	**$ 29,766,225**

(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) During the year ended December 31, 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 17) was recognized within equity upon exercise.

(iii) During the year ended December 31, 2018, 1,315,281 Common Shares were issued on the exercise of 35,128,148 Series B Warrants. The related derivative liability of $32,988,998 (see Note 17) was derecognized at the dates of exercise.

19. SHARE CAPITAL

(b) Issued and outstanding (continued)

(iv) During the year ended December 31, 2018, of the 10,273,972 Series C Warrants initially granted, 9,451,780 were exercised for 9,452 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 17) was derecognized at the dates of exercise.

(v) During the year ended December 31, 2018, 1,699 Common Shares were issued for the exercise of 1,698,841 of the Series D Warrants that were issued as part of the Series B Units for cash proceeds of $16,988. The related derivative financial liability of $1,004,195 was derecognized (see Note 17) at the date of exercise.

(vi) During the year ended December 31, 2018, 295,740 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 17) was derecognized at the dates of exercise.

(vii) During the year ended December 31, 2018, 1,076,583 Common Shares were issued on the conversion of $17,640,000 of aggregate principal amount of 2017 Notes. The $20,555,832 aggregate principal amount of 2017 Notes (see Note 17) was derecognized at the date of exercise.

(viii) During the year ended December 31, 2019, 2,222,222 Common Shares were issued for gross proceeds of $10,000,000 less $1,270,000 in underwriting commission, a $315,611 fair value charge for 144,444 Broker Warrants issued (see Note 17(d)) and $611,972 in other share issuance costs.

(ix) On May 16, 2019, the Company completed a private placement of (i) 15% original issue discount convertible notes with a face value of $11.5 million, for gross proceeds to the Company of $9,775,000, and (ii) 334,951 common shares of the Company at a price of $5.15 per Common Share, for net proceeds of $1,664,662.

(x) During the year ended December 31, 2019, 223,304 Common Shares were issued on the exercise of 822,192 Series B Warrants. The related derivative liability of $16,931(see Note 17) was derecognized at the dates of exercise.

(xi) During the year ended December 31, 2019, the remaining 822,192 Series C Warrants were exercised for 822 Common Shares, 822,192 Series A Warrants and 822,192 Series B Warrants and net cash proceeds of $1,186,027. The related derivative financial liability of $5,638 (see Note 17) was derecognized at the dates of exercise.

(xii) During the year ended December 31, 2019, 3,074,136 Common Shares were issued on the conversion of $11,197,000 of aggregate principal amount of 2017 Notes. The $13,095,938 aggregate principal amount of 2017 Notes (see Note 17) was derecognized at the date of exercise.

(xiii) During the year ended December 31, 2019, the Company entered into exchange agreements with the holders of the remaining Series A Warrants and Series E Warrants to issue 49,624 Common shares for the surrender and cancellation of all 35,950,340 Series A Warrants and all 22,431,506 Series E Warrants outstanding on the basis of 0.00085 of a Common Share for each Warrant.

(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 following table summarizes stock option activity for the respective years as follows:

(Expressed in U.S. dollars)

19. SHARE CAPITAL (continued)

(c) Stock options (continued)

	Number of options		Weighted average exercise price	Average remaining contractual life (years)
Options outstanding, January 1, 2017	**7,865**	**$**	**2,908.60**	**1.77**
Granted	1,844		1,508.10	
Exercised	(2,174)		823.60	
Forfeited	(1,828)		1,830.60	
Options outstanding, December 31, 2017	**5,707**	**$**	**3,849.00**	**2.28**
Options exercisable, December 31, 2017	**4,513**	**$**	**3,976.60**	**1.94**
Granted	366,053		30.31	
Exercised	(49)		7.33	
Forfeited	(1,178)		1,712.35	
Expired	(807)		1,813.70	
Options outstanding, December 31, 2018	**369,726**	**$**	**76.78**	**7.88**
Options exercisable, December 31, 2018	**146,263**	**$**	**127.04**	**7.62**
Granted	697,150		4.27	
Exercised	-		-	
Forfeited	(13,344)		58.64	
Expired	(1,867)		4,997.06	
Options outstanding, December 31, 2019	**1,051,665**	**$**	**20.63**	**7.09**
Options exercisable, December 31, 2019	**398,596**	**$**	**35.69**	**6.97**

The following table lists the options outstanding as at December 31, 2019 by exercise price:

Exercise price	**Options outstanding**	**Weighted average remaining term (yrs)**	**Options exercisable**	**Weighted average remaining term (yrs)**
$4.10	561,050	7.23	140,450	7.23
$5.00	130,950	7.41	32,738	7.41
$8.80	88,800	6.92	59,242	6.92
$27.20	263,250	6.75	162,268	6.75
$27.30 - $9,276.86	7,615	4.71	3,898	3.69
	1,051,665		398,596	

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

Exercise price	**Options outstanding**	**Weighted average remaining term (yrs)**	**Options exercisable**	**Weighted average remaining term (yrs)**
$8.80	89,900	7.92	29,976	7.92
$27.20	270,000	7.75	112,566	7.75
$60.00	1,055	7.25	-	-
$60.01 - $8,917.93	8,771	4.39	3,721	1.48
	369,726		146,263	

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)**
$1,850.00 - $12,160.00	5,707	2.24	4,513	2.07
	5,707		4,513	

(Expressed in U.S. dollars)

19. SHARE CAPITAL (continued)

(c) Stock options (continued)

During the year ended December 31, 2019, the Company recorded $3,189,808, as compensation expense for share-based compensation awarded to eligible optionees (years ended December 31, 2018 and 2017: $3,292,877 and $2,484,543, 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:

	2019	2018	2017
Weighted average fair value	**$ 3.60**	$ 16.40	$ 14.90
Weighted average exercise price	**$ 4.30**	$ 30.30	$ 1,900
Weighted average share price at grant	**$ 4.30**	$ 30.30	$ 1,900
Dividend yield	**nil**	nil	nil
Volatility	**141%**	72%	110%
Risk-free interest rate	**1.51%**	2.24%	1.12%
Expected life	**4 years**	4 years	5 years
Forfeiture rate	**7.00%**	7.00%	6.00%

(d) Restricted share units

On December 2, 2019, the Company adopted a Restricted Share Unit ("RSU") Plan which provides for RSUs to be awarded to directors, officers, employees and service providers. The maximum number of Common Shares authorized and reserved for issuance under the RSU Plan is equal to 5% of the issued and outstanding Common Shares of the Company. The shareholders of the Company are set to approve the amended RSU Plan at the next annual meeting of the shareholders, which falls within 12 months of the effective date of the RSU Plan.

The granting of RSUs is considered an equity-settled share-based payment transaction. The fair value of the grant was determined by multiplying the Company's share price at the grant date by the number of RSUs granted and is recognized over the vesting period of the grant. Expense recognized for the year ended December 31, 2019 was $22,848. As of December 31, 2019, the total remaining unrecognized compensation cost related to RSUs amounted to approximately $432,961, which will be amortized over the remaining vesting periods.

RSU transactions are summarized as follows:

	Number of RSUs	**Weighted Average Grant Date Fair Value Per Share**
Outstanding, December 31, 2018	-	-
Granted	152,956	$2.98
Vested	-	-
Outstanding, December 31, 2019	**152,956**	**$2.98**

(Expressed in U.S. dollars)

19. SHARE CAPITAL (continued)

(e) Warrants

The following table lists the number of warrants issued on November 17, 2017 as well as the number issued, exercised, and exchanged since then and the remaining warrants outstanding at December 31, 2019.

Warrants	As at November 17, 2017	Issued	Exercised	Exchanged	As at December 31, 2019
Series A	25,676,368	10,273,972	-	(35,950,340)	-
Series B	25,676,368	10,273,972	(35,950,340)	-	-
Series C	10,273,972	-	(10,273,972)	-	-
Series D	3,573,830	-	(3,573,830)	-	-
Series E	22,431,506	-	-	(22,431,506)	-
Series F	22,431,506	-	(22,431,506)	-	-

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. On June 25, 2019, the Company effected a share consolidation (reverse stock split) of its issued and outstanding Common Shares the basis of one post-consolidation Common Share for every ten pre-consolidation Common Shares. The number of 2017 Warrants and aggregate principal amount of 2017 Notes were not affected by the consolidations, but the Common Shares issuable upon exercise of the 2017 Warrants or conversion of the 2017 Notes was adjusted proportionally to the share consolidation ratios.

The September 2018 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 September 2018 share consolidation. There were no 2017 Warrants outstanding at the time of the June 2019 share consolidation.

On March 12, 2019, the Company entered into exchange agreements with the holders of all of its outstanding Series A Warrants and Series E Warrants, pursuant to which the Company issued an aggregate of 49,624 Common Shares for the surrender and cancellation of all of the Series A Warrants and Series E Warrants outstanding, on the basis of 0.085 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 outstanding from the 2017 Financings. Under IFRIC 19, the surrender and cancellation of Series A warrants and Series E warrants created a loss on extinguishment of $39,367 and $24,565, respectively.

(f) Broker Warrants

In February and March of 2019, the Company completed two $5 million underwritten public offerings and issued 144,444 broker warrants (“Broker Warrants”) as part of the underwriter’s commission. The Company uses the Black-Scholes pricing model to calculate the fair value of the Broker Warrants. The model requires six key inputs: risk free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life and expected volatility, all of which, other than the exercise price and market price, are estimates by management of the Company. The fair value for the February 28, 2019 $5 million public offering and 72,222 broker warrants was computed using the Black-Scholes pricing model with the following assumptions: a) average risk-free interest rate of 2.51%; b) expected life of 3 years; c) the price of the stock on the grant date of $4.50; d) expected volatility of 81%; and e) no expected dividend payments. The fair value for the March 15, 2019 $5 million public offering and 72,222 broker warrants was computed using the Black-Scholes pricing model with the following assumptions: a) average risk-free interest rate of 2.43%; b) expected life of 3 years; c) the price of the stock on the grant date of $4.50; d) expected volatility of 82%; and e) no expected dividend payments. The Black-Scholes model was used to compute broker warrant fair values because it is the most commonly used pricing model and is considered to produce a reasonable estimate of fair value.

(Expressed in U.S. dollars)

20. SEGMENT INFORMATION

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

	For the years ended December 31,		
	2019	2018	2017
REVENUE			
Europe	**$ 1,863,032**	$ 1,600,633	$ 466,471
Rest of the World	**229,000**	148,500	4,393,303
United States	**-**	-	529,240
	$ 2,092,032	$ 1,749,133	$ 5,389,014

Sales to the Company's three largest customers accounted for approximately 12%, 9%, and 8% of the Company's sales for the twelve months ended December 31, 2019. Sales to the Company's three largest customers accounted for approximately 28%, 9%, and 9% of the Company's sales for the twelve months 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 twelve months ended December 31, 2017.

21. EMPLOYEE BENEFITS EXPENSE

	For the years ended December 31,		
	2019	2018	2017
Salaries and wages	**$ 9,583,936**	$ 8,477,335	$ 9,244,473
Pension plan and employment insurance	**458,276**	418,303	509,966
Contribution to defined contribution pension plan	**182,449**	170,358	194,123
Health benefits	**651,269**	476,217	613,918
Cash-based employee expenses	**10,875,930**	9,542,213	10,562,480
Employee termination expenses	**26,050**	761,354	-
Share-based payments	**3,189,808**	3,292,877	2,484,543
Total employee expenses	**$ 14,091,788**	$ 13,596,444	$ 13,047,023

(Expressed in U.S. dollars)

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

	For the years ended December 31, 2019	2018 As restated Note 23	2017 As restated Note 23
EXPENSES			
Selling expenses			
Share-based payment	**$ 188,930**	$ 170,416	$ 98,379
Cash-based employee expenses	**526,769**	352,837	202,261
Other expenses	**930,286**	829,912	585,586
	$ 1,645,985	$ 1,353,165	$ 886,226
General and administrative expenses			
Depreciation	**182,202**	60,206	93,196
Share-based payments	**1,748,660**	2,147,832	1,080,627
Cash-based employee expenses	**2,725,814**	2,498,005	2,792,897
Litigation expenses	**81,171**	540,125	2,410,350
Employee termination expenses	**26,050**	761,354	-
Accretion on collaboration, license and settlement agreements provision	**693,047**	5,129,758	-
Expenses related to the 2017 Financings	**-**	-	5,447,182
Other expenses	**4,556,788**	5,301,656	3,860,531
	$ 10,013,732	$ 16,438,936	$ 15,684,783
Product development and clinical trials expenses			
Depreciation	**459,419**	323,920	382,234
Share-based payments	**1,252,218**	974,629	1,305,535
Cash-based employee expenses	**7,623,347**	6,691,371	7,609,387
Other expenses	**10,685,975**	8,011,544	6,917,283
	20,020,959	16,001,464	16,214,439
TOTAL EXPENSES	**$ 31,680,676**	$ 33,793,565	$ 32,785,448
Depreciation per Statements of Cash Flows	**$ 641,621**	$ 384,126	$ 534,545
Share-based payments per Statements of Cash Flows	**$ 3,189,808**	$ 3,292,877	$ 2,484,543
Cash-based employee expenses (see Note 21)	**$ 10,875,930**	$ 9,542,213	$ 10,562,480

(Expressed in U.S. dollars)

23. RESTATEMENT

During the years ended December 31, 2018 and 2017, the Company identified certain accounting differences requiring restatement of previously issued consolidated financial statements. The accounting differences are related to Reducer units purchased for research and development during the year ended December 31, 2017 and recognized as product development and clinical trials expenses during that period. Not all of the units were used for product development and clinical trials and during the year ended December 31, 2019, as Reducer revenue increased, the Company used certain of those units in commercial activities. In order to correctly state the cost of goods sold for the year ended December 31, 2019 and the correct period expense for the years ended December 31, 2019, 2018 and 2017 the Company has restated the years ended December 31, 2018 and 2017 to include those Reducer units as research and development supplies assets with potential future economic value at the end of each of those periods.

The impact to the 2018 and 2017 consolidated financial statements is as follows:

Consolidated Statements of Financial Position	**2018 As restated**	2018 As previously reported	**2017 As restated**	2017 As previously reported
Inventory	**$ 318,135**	$ 258,742	**$ 398,556**	$ 398,556
Research and development supplies	**1,274,653**	-	**1,274,653**	-
Deficit	**(331,401,149)**	(332,735,195)	**(223,417,674)**	(224,692,327)
Consolidated Statements of Loss and Comprehensive Loss				
Product development and clinical trials	**$ 16,001,464**	$ 16,060,857	**$ 16,214,439**	$ 17,489,092
Operating loss	**(32,410,690)**	(32,470,083)	**(30,874,255)**	(32,148,908)
Loss for the year	**(107,983,475)**	(108,042,868)	**(21,634,068)**	(22,908,721)
Loss per share	**$ (76.26)**	$ (76.30)	**$ (265.37)**	$ (281.94)
Consolidated Statements of Cash Flows				
Loss for the year	**$(107,983,475)**	$ (108,042,868)	**$ (21,634,068)**	$ (22,908,721)
Net change in non-cash working capital items	**(59,393)**	-	**(1,274,653)**	-

(Expressed in U.S. dollars)

24. 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, 2019 amounts to 6,511,672 (years ended December 31, 2018 and 2017: 1,416,011 and 81,524 shares, respectively).

	For the years ended December 31, 2019	2018 As restated Note 23	2017 As restated Note 23
Weighted average number of Common Shares	**6,511,672**	1,416,011	81,524
Loss for the period	**$ (35,131,015)**	$ (107,983,475)	$ (21,634,068)
Basic and diluted loss per share	**$ (5.40)**	$ (76.26)	$ (265.37)

Instruments that could potentially have a dilutive effect on the Company's weighted average shares outstanding include all or a portion of outstanding convertible notes, restricted share units, stock options, and warrants. These instruments are currently excluded from the calculation of diluted earnings per share as they are antidilutive for the periods presented.

25. 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, 2019	2018	2017
Short-term employee benefits			
Employee salaries and bonuses	**$ 2,235,926**	$ 2,112,605	$ 1,326,702
Directors fees	**245,000**	270,000	267,785
Social security and medical care costs	**77,284**	63,529	32,912
	2,558,210	2,446,134	1,627,399
Post-employment benefits			
Contributions to defined contribution pension plan	**32,435**	34,162	15,928
Employee termination expense	**-**	296,592	-
Share-based payments	**1,555,857**	2,270,023	1,055,719
Total key management remuneration	**$ 4,146,502**	$ 5,046,911	$ 2,699,046

26. CONTINGENT LIABILITIES AND PROVISIONS

Litigation

Litigation resulting from third party claims has been, and may 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 any future claims that may occur, 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, Edwards Lifesciences CardiAQ LLC (“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. 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. 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. There are no monetary awards associated with these matters and no damages award was recognized.

Claims by CardiAQ in the United States

On March 24, 2017, CardiAQ filed a related lawsuit in the in the U.S. District Court for the District of Massachusetts (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 did not seek money damages and would not have prevented 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 April 17, 2019, the Company resolved the three claims for correction of patent inventorship and, without reaching conclusion on the merits of the claims, the parties agreed to the correction of patent inventorship and added co-inventors to the three patents in question. Each party will bear its own costs. There were no monetary awards associated with these matters and no damages award was recognized.

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. 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 Neovasc Defendants, Boston Scientific and Livanova, has been dismissed on a no-costs basis. No damages award was recognized.

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 (collectively, “UPenn”), which resolved certain potential claims against the Company that had been previously disclosed. The collaboration and licensing agreement with UPenn contemplates certain fees being paid by Neovasc to UPenn, including fees in installments totaling $2.65 million over the four years following the agreement's execution. In addition, Neovasc agreed to pay UPenn a royalty of 1.0-1.5% on the annual net sales of the Tiara following the first commercial sale of the Tiara. Also contained in the collaboration and licensing 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 collaboration and licensing agreement, certain potential claims against the Neovasc Defendants were resolved.

26. CONTINGENT LIABILITIES AND PROVISIONS (continued)

Other Matters (continued)

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 $893,902 as at December 31, 2019 representing the discounted value of future payments anticipated under the settlement agreement with UPenn. The Company has not accrued for any future royalty payments in the settlement agreement with UPenn as the amounts are undeterminable at this time.

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. On February 20, 2019, the Company announced that it had entered into a settlement agreement with Endovalve. The settlement agreement with Endovalve 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.

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 $1,384,705 as at December 31, 2019 representing the discounted value of future payments anticipated under the settlement agreement with Endovalve. The Company has not accrued for any future royalty payments in the settlement agreement with Endovalve as the amounts are undeterminable at this time.

27. SUBSEQUENT EVENTS

On January 6, 2020, the Company completed a registered direct offering of an aggregate of 1,185,000 series A units ("Series A Units") and 1,241,490 series B units ("Series B Units") at a price of US$4.1351 per Series A Unit and US$4.135 per Series B Unit for aggregate gross proceeds to the Company of approximately US$10 million, before deducting placement agent's fees and estimated expenses of the Offering payable by the Company. Each Series A Unit consists of one common share of the Company and one warrant (a "Warrant") to purchase one common share. Each Warrant entitles the holder to acquire one common share of the Company at a price of US$4.1351 at any time prior to the date which is four years following the date of issuance. Each Series B Unit consists of one pre-funded warrant of the Company (each, a "Pre-Funded Warrant") and one Warrant. Each Pre-Funded Warrant entitles the holder to acquire one common share of the Company at a price of US$0.0001 at any time until the exercise in full of each Pre-Funded Warrant. As part of the underwriter's compensation in the January 2020 Financing, the Company issued the underwriter warrants to purchase in aggregate up to a 157,721 Common Shares, exercisable at a price per Common Share equal to $5.1689 for a period of three years following issuance.

On February 11, 2020, the Company announced the retainment of independent expert Joshua Mitts, a professor at Columbia University specializing in securities trading and capital markets, to investigate recent past unusual trading activity in the Company’s Common Shares. Professor Mitts will examine trading history related to the unusual volume and downward pressure on the price of the Common Shares of the Company after positive news releases, and the unusual volume and downward pressure on the price of the Common Shares of the Company after the Company announced an update on its compliance with the Nasdaq’s minimum value of listed securities rule. The findings of the commissioned report may be provided to appropriate authorities, including the Nasdaq.

On February 19, 2020, the Company received notice from the Listing Qualifications Staff (the “Staff”) of The Nasdaq Stock Market LLC (“Nasdaq”) indicating that the Staff had determined to delist the Company’s common shares from Nasdaq unless the Company requests a hearing before the Nasdaq Hearings Panel. On February 24, 2020, the Company requested such a hearing and the date of the hearing has been set by the Nasdaq for April 2, 2020. This request for a hearing will stay any further action by the Staff and the Company’s securities will continue to be eligible to trade on Nasdaq at least pending the ultimate conclusion of the hearing process. A delisting from the Nasdaq Capital Market would result in an event of default under the 2017 Notes.

27. SUBSEQUENT EVENTS (continued)

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. These restrictive measures along with market uncertainty have resulted in difficulties distributing, marketing and selling Reducer in our European markets and has decreased the demand for, and revenue from, Reducer. These restrictive measures may also impact our ability to enroll in our clinical trials or continue further product development of the Tiara. In addition, the recent outbreak of COVID-19 has had a negative impact on capital markets, which may adversely affect our ability to raise capital. The recent decrease in our share price may make raising additional capital more dilutive to our shareholders and may make it harder to remain listed on the Nasdaq. We have not been informed by the FDA in the United States that our application to gain market approval has been delayed.

The Company has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended December 31, 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

28. AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2019 (including comparatives) were approved by the audit committee on behalf of the board of directors on March 24, 2020.

(signed) ***Chris Clark***

Chris Clark, Chief Financial Officer

(signed) ***Paul Geyer***

Paul Geyer, Director