



Neovasc Inc.
CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS

FOR THE THREE MONTHS ENDED
MARCH 31, 2020 AND 2019

(Expressed in U.S. dollars)

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NEOVASC INC.

Condensed Interim Consolidated Statements of Financial Position

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

	Notes	March 31, 2020	December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents	6	\$ 7,042,344	5,292,833
Accounts receivable	7	741,034	715,696
Finance lease receivable	8	88,951	86,764
Inventory	9	806,717	618,650
Research and development supplies	9	424,887	671,845
Prepaid expenses and other assets	10	546,492	630,042
Total current assets		9,650,425	8,015,830
Non-current assets			
Restricted cash	11	424,821	462,874
Right-of-use asset	12	627,818	720,473
Finance lease receivable	8	115,615	138,690
Property, plant and equipment	13	743,400	767,973
Total non-current assets		1,911,654	2,090,010
Total assets		\$ 11,562,079	10,105,840
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	14	\$ 6,611,950	7,794,456
Lease liabilities	15	386,479	436,352
2017 Convertible Notes	16	3,783,494	5,400,189
2019 Convertible Notes	16	1,304,784	1,090,561
Total current liabilities		12,086,707	14,721,558
Non-Current Liabilities			
Accrued liabilities	14	1,211,561	1,186,601
Lease liabilities	15	404,705	468,527
2019 Convertible Notes	16	5,149,974	8,174,919
Total non-current liabilities		6,766,240	9,830,047
Total liabilities		\$ 18,852,947	24,551,605
Equity			
Share capital	17	\$ 335,439,896	328,460,681
Contributed surplus	17	32,615,313	29,766,225
Accumulated other comprehensive loss		(4,702,322)	(6,140,507)
Deficit		(370,643,755)	(366,532,164)
Total equity		(7,290,868)	(14,445,765)
Total liabilities and equity		\$ 11,562,079	10,105,840

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

Subsequent Events (see Note 24)

Contingent liabilities and provisions (see Note 23)

NEOVASC INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

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

	Notes	2020	2019
REVENUE	18	\$ 532,895	\$ 585,793
COST OF GOODS SOLD		(124,563)	(143,994)
GROSS PROFIT		<u>408,332</u>	<u>441,799</u>
EXPENSES			
Selling expenses	20	553,529	368,233
General and administrative expenses	20	2,487,502	2,680,931
Product development and clinical trials expenses	20	4,523,406	4,239,963
		<u>7,564,437</u>	<u>7,289,127</u>
OPERATING LOSS		<u>(7,156,105)</u>	<u>(6,847,328)</u>
OTHER (EXPENSE)/INCOME			
Interest income		33,669	35,130
Interest expense		29,336	(31,421)
Impairment on right-of-use asset		-	(260,616)
Gain/(loss) on foreign exchange		(651)	20,518
Unrealized gain/(loss) on derivative warrant liability from financing and convertible notes	16	3,132,982	(781,621)
Realized loss on exercise of warrants and convertible notes		(143,750)	(786,407)
		<u>3,051,586</u>	<u>(1,804,417)</u>
LOSS BEFORE TAX		<u>(4,104,519)</u>	<u>(8,651,745)</u>
Tax (expense)/recovery		(7,072)	36,370
LOSS FOR THE PERIOD		<u>\$ (4,111,591)</u>	<u>\$ (8,615,375)</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD			
Fair market value changes in convertible notes due to changes in own credit risk		1,438,185	696,553
LOSS AND OTHER COMPREHENSIVE LOSS FOR THE PERIOD		<u>\$ (2,673,406)</u>	<u>\$ (7,918,822)</u>
LOSS PER SHARE			
Basic and diluted loss per share	21	\$ (0.38)	\$ (0.21)

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Condensed Interim Consolidated Statements of Changes in Equity

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

	Notes	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
		\$ 304,460,533	\$ 26,260,806	\$ (7,653,028)	\$ (332,735,195)	\$ (9,666,884)
Balance at January 1, 2019						
Issue of share capital on public offering (net of share issuance costs)	17(b)	7,802,417	-	-	-	7,802,417
Issue of share capital on exercise of warrants	17(b)	1,202,958	-	-	-	1,202,958
Issue of share capital on exchange of warrants	17(b)	234,173	-	-	-	234,173
Issue of share capital on conversion of notes	17(b)	4,188,713	-	-	-	4,188,713
Issue of Broker warrants	17(b)	-	315,611	-	-	315,611
Share-based payments	20	-	1,036,148	-	-	1,036,148
Transactions with owners during the period		13,428,261	1,351,759	-	-	14,780,020
Loss for the period		-	-	-	(8,615,375)	(8,615,375)
Other comprehensive loss for the period		-	-	696,553	-	696,553
Balance at March 31, 2019		\$ 317,888,794	\$ 27,612,565	\$ (6,956,475)	\$ (341,350,570)	\$ (2,805,686)
Balance at January 1, 2020						
Issue of share capital on public offering (net of share issuance costs)	17(b)	6,978,837	1,337,662	-	-	8,316,499
Issue of share capital on exercise of stock options	17(b)	378	(174)	-	-	204
Issue of Broker warrants	17(b)	-	443,277	-	-	443,277
Share-based payments	20	-	1,068,323	-	-	1,068,323
Transactions with owners during the year		6,979,215	2,849,088	-	-	9,828,303
Loss for the period		-	-	-	(4,111,591)	(4,111,591)
Other comprehensive loss for the period		-	-	1,438,185	-	1,438,185
Balance at March 31, 2020		\$ 335,439,896	\$ 32,615,313	\$ (4,702,322)	\$ (370,643,755)	\$ (7,290,868)

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Condensed Interim Consolidated Statements of Cash Flows

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

	Notes	2020	2019
OPERATING ACTIVITIES			
Loss for the period		\$ (4,111,591)	\$ (8,615,375)
Adjustments for:			
Depreciation	20	183,910	144,582
Share-based payments	20	1,068,323	1,036,148
Impairment of right-of-use asset	12	-	260,616
Accretion on collaboration, license and settlement agreement provision		47,845	127,095
Unrealized (gain)/loss on derivative liability and convertible notes	16	(3,132,982)	781,621
Realized loss on exercise of warrants and convertible notes	16	143,750	786,407
Write-down accounts receivable		-	64,600
Income tax expense/(recovery)		7,072	(36,370)
Interest income and expenses		(15,631)	(3,709)
		<u>(5,809,304)</u>	<u>(5,454,385)</u>
Net change in non-cash working capital items:			
Accounts receivable		(25,338)	(137,479)
Inventory		(188,067)	(208,524)
Research and development supplies		249,958	-
Prepaid expenses and other assets		83,550	(38,965)
Accounts payable and accrued liabilities		(1,205,391)	251,030
Payment of amounts due on collaboration, license and settlement agreements		-	(750,000)
		<u>(1,088,288)</u>	<u>(883,938)</u>
Income tax and Interest paid and received:			
Income tax (paid)/recovered		(7,072)	36,370
Interest received		33,669	35,130
		<u>26,597</u>	<u>71,500</u>
Net cash applied to operating activities		<u>(6,870,995)</u>	<u>(6,266,823)</u>
INVESTING ACTIVITIES			
Decrease/(increase) in restricted cash		38,053	(9,348)
Purchase of property, plant and equipment	13	(40,331)	(44,314)
Net cash applied to investing activities		<u>(2,278)</u>	<u>(53,662)</u>
FINANCING ACTIVITIES			
Proceeds from exercise of warrants	17(b)	-	1,200,400
Proceeds from public offering net of share issuance costs	17(b)	8,759,776	8,118,030
Proceeds from exercise of options		205	-
Payment of lease obligation		(137,196)	(125,299)
Net cash from financing activities		<u>8,622,784</u>	<u>9,193,131</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS		<u>1,749,511</u>	<u>2,872,646</u>
CASH AND CASH EQUIVALENTS			
Beginning of the period		5,292,833	9,242,809
Exchange difference on cash and cash equivalents		-	-
End of the period		<u>\$ 7,042,344</u>	<u>\$ 12,115,455</u>
Represented by:			
Cash and cash equivalents	6	<u>\$ 7,042,344</u>	<u>\$ 12,115,455</u>

See Accompanying Notes to the Condensed Interim Consolidated Financial Statements

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in U.S. dollars)

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 condensed interim consolidated financial statements of the Company as at March 31, 2020 and for the three months ended March 31, 2020 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 March 31, 2020, the Company had approximately \$7.04 million in cash and cash equivalents. If the 2017 Notes are converted prior to the maturity date, the Company expects that its cash on hand as at March 31, 2020 and including the January 2020 Financing is sufficient to sustain operations until approximately the end of July 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 the end of May 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 condensed interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the Company be unable to obtain additional capital in the future and the Company’s ability to continue as a going concern be impaired, material adjustments may be necessary to these 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.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in U.S. dollars)

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).

The Company did not regain compliance by February 17, 2020. 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 26, 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. On April 30, 2020, the Panel granted the Company's request for an extension through August 17, 2020 to evidence compliance with the \$35 million minimum market value of listed securities requirement for continued listing on the Nasdaq.

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.

(e) Impacts of COVID-19 pandemic

The Company is subject to risks and uncertainties as a result of the COVID-19 pandemic. The extent of the impact of the COVID-19 pandemic on the Company's business is highly uncertain and difficult to predict, as the response to the pandemic is in its early stages and information is rapidly evolving. Furthermore, capital markets and economies worldwide have also been negatively impacted by the COVID-19 pandemic, and it is possible that it could cause a local and/or global economic recession. Such economic disruption could have a material adverse effect on our business.

The severity of the impact of the COVID-19 pandemic on the Company's business will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Company's customers, all of which are uncertain and cannot be predicted. The Company's future results of operations and liquidity could be adversely impacted by delays in payments of outstanding receivable amounts beyond normal payment terms, supply chain disruptions and uncertain demand, and the impact of any initiatives or programs that the Company may undertake to address financial and operational challenges faced by its customers. As of the date of issuance of these condensed interim consolidated financial statements, the extent to which the COVID-19 pandemic may materially impact the Company's financial condition, liquidity, or results of operations is uncertain.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in U.S. dollars)

2. BASIS OF PREPARATION

(a) Statement of compliance with IFRS

These condensed interim consolidated financial statements are prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”), using the accounting policies consistent with the Company’s annual consolidated financial statements for the three months ended March 31, 2020 and 2019. These condensed interim consolidated financial statements should be read in conjunction with the Company’s audited annual consolidated financial statements for the three months ended March 31, 2020 and 2019 and the accompanying notes included in those financial statements. For a full description of accounting policies, refer to the audited annual consolidated financial statements of the Company for the three months ended March 31, 2020 and 2019.

The results for the three months ended March 31, 2020 may not be indicative of the results that may be expected for the full year or any other period.

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

(b) Presentation of financial statements

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

3. SIGNIFICANT ACCOUNTING POLICIES

The condensed interim consolidated financial statements have been prepared in accordance with the accounting policies adopted in the Company’s most recent annual consolidated financial statements for the three months ended March 31, 2020.

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 three months ended March 31, 2020, there were no changes in the Company’s capital management policy.

The capital of the Company is comprised of:

	March 31, 2020	December 31, 2019
2017 Convertible Notes	\$ 3,783,494	\$ 5,400,189
2019 Convertible Notes	6,454,758	9,265,480
Equity	(7,290,868)	(14,445,765)
Capital	<u>\$ 2,947,384</u>	<u>\$ (219,904)</u>

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

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in U.S. dollars)

5. FINANCIAL RISK MANAGEMENT

(a) Fair value estimation (continued)

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 March 31, 2020 and December 31, 2019. 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, 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
Derivative warrant financial liability from financing	\$ -	\$ -	\$ 9,265,480	\$ 9,265,480

As at March 31, 2020:

	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss				
2017 Convertible Notes	\$ -	\$ -	\$ 3,783,494	\$ 3,783,494
2019 Convertible Notes	\$ -	\$ -	\$ 6,454,758	\$ 6,454,758

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

	Note	March 31, 2020	December 31, 2019
Amortized cost			
Cash and cash equivalents	6	\$ 7,042,344	\$ 5,292,833
Accounts receivable	7	741,034	715,696
Restricted cash	11	424,821	462,874
		\$ 8,208,199	\$ 6,471,403
Other financial liabilities at amortized cost			
Accounts payable and accrued liabilities (current)	14	\$ 6,611,950	\$ 7,794,456
Accrued liabilities (non-current)	14	1,211,561	1,186,601
Financial liabilities at fair value through profit and loss			
2017 Convertible Notes (current)	17	\$ 3,783,494	\$ 5,400,189
2019 Convertible Notes (current)	17	1,304,784	1,090,561
2019 Convertible Notes (non-current)	17	5,149,974	8,174,919
		\$ 18,061,763	\$ 23,646,726

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 43% of the revenue for the three months ended March 31, 2020 (three months ended March 31, 2019: 36%). A 10% change in the foreign exchange rates for the Euro for foreign currency denominated accounts receivable will impact net income as at March 31, 2020 by approximately \$12,486 (as at March 31, 2019: \$21,000), and a similar change in foreign currency denominated accounts payable, which are denominated in Canadian dollars and Euros will impact net income by approximately \$92,517 and \$139,561, respectively, as at March 31, 2020 (as at March 31, 2019: \$53,454 and \$62,191). 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 \$90,528 and \$21,653, respectively, as at March 31, 2020 (as at March 31, 2019: \$68,493 and \$52,560). The Company does not hedge its foreign exchange risk.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(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 March 31, 2020, the Company had \$7,042,344 in cash and cash equivalents as compared to cash and cash equivalents of \$5,292,833 at December 31, 2019. 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 March 31, 2020 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 March 31, 2020 and do not include accrued liabilities. All trades payables are current liabilities:

	Total
Current	\$ 1,291,374
31-60 days	917,763
Over 60 days	1,753,876
	<u>\$ 3,963,013</u>

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities as at March 31, 2020:

	Within One Year	Between One and Two Years
Collaboration, license and settlement agreements (undiscounted)	\$ 1,250,000	\$ 1,250,000
	<u>\$ 1,250,000</u>	<u>\$ 1,250,000</u>

(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 the Company's customers were to default at the same time is the full carrying value of the trade accounts receivable as at March 31, 2020 is \$624,187 (as at March 31, 2019: \$682,691). As at March 31, 2020, the Company had \$231,600 (as at March 31, 2019: \$238,623) of trade accounts receivable that were overdue according to the customers' credit terms. During the three months ended March 31, 2020 the Company wrote down \$nil, of accounts receivable owed by customers (as at March 31, 2019: \$64,600).

The Company may also have credit risk related to its cash and cash equivalents and restricted cash, with a maximum exposure of \$7,467,165 as at March 31, 2020 (as at December 31, 2019: \$5,755,707). The Company minimizes its risk to cash and cash equivalents and restricted cash by maintaining the majority of its balances with Canadian Chartered Banks.

NEOVASC INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in U.S. dollars)

6. CASH AND CASH EQUIVALENTS

	March 31, 2020	December 31, 2019
Cash held in:		
United States dollars	\$ 6,345,357	\$ 4,489,501
Canadian dollars	480,462	525,371
Euros	216,525	277,961
	\$ 7,042,344	\$ 5,292,833

7. ACCOUNTS RECEIVABLE

	March 31, 2020	December 31, 2019
Trade accounts receivable	\$ 624,187	\$ 597,505
Other accounts receivable	116,847	118,191
	\$ 741,034	\$ 715,696

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

	March 31, 2020	December 31, 2019
Not past due	\$ 389,238	\$ 472,257
Past due 0 - 30 days	34,682	14,139
30 - 60 days	99,200	20,000
60 - 90 days	-	-
90 - 120 days	-	-
Over 120 days	139,336	114,676
Loss Allowance	(38,269)	(23,567)
	\$ 624,187	\$ 597,505

All the Company's trade and other receivables have been reviewed for impairment. During the three months ended March 31, 2020, the Company wrote off \$nil of accounts receivable (the three months ended March 31, 2019: \$64,600).

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:

	March 31, 2020	December 31, 2019
Current	\$ 88,951	\$ 86,764
Non-current	115,615	138,690
	\$ 204,566	\$ 225,454

The following is a detailed maturity analysis of the undiscounted finance lease receivables as at March 31, 2020:

	Total
Less than 1 year	\$ 105,404
1-2 years	105,404
2-3 years	17,567
3-4 years	-
4-5 years	-
Total undiscounted finance lease receivables	\$ 228,375

NEOVASC INC.

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9. INVENTORY

	March 31, 2020	December 31, 2019
Raw materials	\$ 683,326	\$ 500,263
Work in progress	-	-
Finished goods	123,391	118,387
	\$ 806,717	\$ 618,650
Research and development supplies	\$ 424,887	\$ 671,845

During the three months ended March 31, 2020 the Company did not write down any inventory. During the three months ended March 31, 2020, \$124,563 of inventory was expensed in cost of goods sold (three months ended March 31, 2019: \$143,994).

10. PREPAID EXPENSES AND OTHER ASSETS

	March 31, 2020	December 31, 2019
Prepaid expenses	\$ 36,330	\$ 7,140
Prepaid insurance	158,206	269,262
Deposits on rental agreements	119,660	119,660
Retainers for professional services	23,000	23,000
Other prepaid expenses and other assets	209,296	210,980
	\$ 546,492	\$ 630,042

11. RESTRICTED CASH

	March 31, 2020	December 31, 2019
Restricted cash	\$ 424,821	\$ 462,874

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.

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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 March 31, 2020	\$ 1,057,333
ACCUMULATED DEPRECIATION	
Balance at January 1, 2019, on adoption of IFRS 16	-
Balance at December 31, 2019	336,860
Depreciation for the period	92,655
Balance as at March 31, 2020	\$ 429,515
NET BOOK VALUE	
As at January 1, 2019, on adoption of IFRS 16	\$ 1,407,704
As at December 31, 2019	\$ 720,473
As at March 31, 2020	\$ 627,818

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.

NEOVASC INC.

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13. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Leasehold improvements	Production & development equipment	Computer hardware	Computer software	Office equipment	Total
COST								
Balance at January 1, 2019	\$ -	\$ -	\$ 169,938	\$ 1,488,958	\$ 543,922	\$ 653,072	\$ 316,085	\$ 3,171,975
Additions during the year	-	-	-	203,169	-	40,332	-	243,501
Cumulative translation adjustment	-	-	-	-	-	-	-	-
Balance at December 31, 2019	\$ -	\$ -	\$ 169,938	\$ 1,692,127	\$ 543,922	\$ 693,404	\$ 316,085	\$ 3,415,476
Additions during the year	-	-	-	7,042	-	33,289	-	40,331
Disposals during the year	-	-	-	-	-	-	-	-
Balance as at March 31, 2020	\$ -	\$ -	\$ 169,938	\$ 1,699,169	\$ 543,922	\$ 726,693	\$ 316,085	\$ 3,455,807
ACCUMULATED DEPRECIATION								
Balance at January 1, 2019	\$ -	\$ -	\$ 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
Cumulative translation adjustment	-	-	-	(2,664)	-	-	-	(2,664)
Balance at December 31, 2019	\$ -	\$ -	\$ 107,987	\$ 1,133,370	\$ 466,587	\$ 686,443	\$ 253,116	\$ 2,647,503
Depreciation for the year	-	-	6,409	42,259	5,800	7,288	3,148	64,904
Disposals during the year	-	-	-	-	-	-	-	-
Balance at March 31, 2020	\$ -	\$ -	\$ 114,396	\$ 1,175,629	\$ 472,387	\$ 693,731	\$ 256,264	\$ 2,712,407
CARRYING AMOUNTS								
As at December 31, 2019	\$ -	\$ -	\$ 61,951	\$ 558,757	\$ 77,335	\$ 6,961	\$ 62,969	\$ 767,973
As at March 31, 2020	\$ -	\$ -	\$ 55,542	\$ 523,540	\$ 71,535	\$ 32,962	\$ 59,821	\$ 743,400

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14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2020	December 31, 2019
Current accounts payable and accrued liabilities		
Trade payables	\$ 3,963,013	\$ 3,993,203
Accrued liabilities	870,730	2,163,886
Accrued vacation	274,514	211,168
Accrued employee termination expenses	-	13,887
Other accounts payable	388,801	320,306
Collaboration, license and settlement agreements provision	1,114,892	1,092,006
Total current accounts payable and accrued liabilities	<u>\$ 6,611,950</u>	<u>\$ 7,794,456</u>
Non-current accrued liabilities		
Non-current collaboration, license and settlement agreements provision	1,211,561	1,186,601
	<u>\$ 1,211,561</u>	<u>\$ 1,186,601</u>
Total accounts payable and accrued liabilities	<u>\$ 7,823,511</u>	<u>\$ 8,981,057</u>

Included in accounts payable and accrued liabilities are \$917,631 related to settlement charges as part of a collaboration agreement and \$1,408,821 related to a settlement provision (see Note 24). This represents the calculated net present value of the amounts set out per the agreement with payments due over the next two years.

15. LEASE LIABILITY

	Total
Balance at January 1, 2019, on adoption of IFRS 16	<u>\$ 1,289,106</u>
Interest expense	128,911
Lease payments	<u>(513,138)</u>
Balance at December 31, 2019	<u>\$ 904,879</u>
Interest expense	23,501
Lease payments	<u>(137,196)</u>
Balance at March 31, 2020	<u>\$ 791,184</u>
Lease Liability, current	\$ 386,479
Lease Liability, non-current	\$ 404,705
The maturity analysis of the undiscounted contractual balances of the lease liabilities is as follows:	
In one year or less	\$ 540,728
In more than one year, but not more than five years	<u>417,280</u>
	<u>\$ 958,008</u>

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16. 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 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.

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16. 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 March 31, 2020 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.

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16. 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 March 31, 2020 and December 31, 2019 and 2018 are summarized below:

Valuation Date	March 31, 2020	December 31, 2019
Price of Common Shares	\$ 1.46	\$ 5.41
Dividend Yield	0%	0%
Historical volatility of Common Shares	100.84%	129.54%
Historical volatility of index	36.07%	11.65%
Volatility input	75.16%	70.59%
Risk-free rate	1.11%	1.79%
Credit spread	29.58%	23.00%

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 March 31, 2020 are summarized below:

Valuation Date	March 31, 2020	December 31, 2019	May 16, 2019
Price of Common Shares	\$ 1.46	\$ 5.41	\$ 49.46
Dividend Yield	0%	0%	0%
Historical volatility of Common Shares	114.62%	124.77%	142.38%
Historical volatility of index	19.37%	13.76%	15.66%
Volatility input	73.55%	69.26%	79.02%
Risk-free rate	0.43%	1.65%	2.13%
Credit spread	33.73%	27.15%	19.64%

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16. 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 March 31, 2020	\$ -	\$ -	\$ -	\$ -

NEOVASC INC.

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16. 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	(1,831,743)
Balance, convertible notes December 31, 2017	\$ 20,007,559
Add:	
Amortization of deferred loss	4,261,598
Less:	
Exercise of 17,640,000 convertible notes	(20,555,832)
Fair value adjustment	10,904,011
Balance, convertible notes December 31, 2018	\$ 14,617,336
Less:	
Exercise of 11,197,000 convertible notes	(13,095,938)
Fair value adjustment	3,878,791
Balance, convertible notes December 31, 2019	\$ 5,400,189
Less:	
Fair value adjustment, March 31, 2020	(1,616,695)
Balance, convertible notes March 31, 2020	\$ 3,783,494
2017 Convertible Notes, current	\$ 3,783,494
2017 Convertible Notes, non-current	\$ -
	2019 Convertible Notes
Fair value, May 16, 2019	\$ 9,775,000
Fair value adjustment,	\$ (509,520)
Balance, convertible notes December 31, 2019	\$ 9,265,480
Less:	
Fair value adjustment, March 31, 2020	(2,810,722)
Balance, convertible notes March 31, 2020	\$ 6,454,758
2019 Convertible Notes, current	\$ 1,304,784
2019 Convertible Notes, non-current	\$ 5,149,974

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17. SHARE CAPITAL

All Common Shares are equally eligible to receive dividends and the repayment of capital and represent one vote at shareholders' meetings. All Preferred Shares have no voting rights at shareholders' meetings but on liquidation, winding-up or other distribution of the Company's assets are entitled to participate in priority to Common Shares. There are no preferred shares issued and outstanding.

(a) Authorized

Unlimited number of Common Shares without par value.

Unlimited number of Preferred Shares without par value.

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, 2019	2,801,720	\$ 304,460,533	\$ 26,260,806
Common Shares issued from public offerings (i)	2,222,222	7,802,417	315,611
Common Shares issued from private placement (ii)	334,951	1,664,662	-
Common Shares issued from exercise Series B Warrants (iii)	223,304	16,931	-
Common Shares issued from exercise of Series C Warrants (iv)	822	1,186,027	-
Common Shares issued from exercise of 2017 Notes (v)	3,074,136	13,095,938	-
Common Shares issued from exchange of Series A and Series E Warrants (vi)	49,624	234,173	-
Share-based payments	-	-	3,189,808
Balance, December 31, 2019	8,706,779	\$ 328,460,681	\$ 29,766,225
Common Shares issued from public offerings Series A (vii)	1,185,000	4,111,950	-
Series A Warrants	-	-	788,144
Series B Pre-funded Warrants	-	-	4,307,848
Series B Warrants	-	-	825,713
Transaction costs for both Series A and Series B	-	(703,718)	(1,013,439)
Common Shares issued from exercise of Series B Pre-funded warrants (viii)	1,241,490	3,570,604	(3,570,604)
Broker warrants	-	-	443,277
Common Shares issued from exercise of stock options	50	378	(174)
Share-based payments	-	-	1,068,323
Balance, March 31, 2020	11,133,319	\$ 335,439,896	\$ 32,615,313

- (i) 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(f)) and \$611,972 in other share issuance costs.
- (ii) 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.
- (iii) 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.
- (iv) 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.

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17. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued)

- (v) 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.
- (vi) 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.
- (vii) On January 6, 2020, the Company completed a registered direct offering of an aggregate of 1,185,000 Series A Units and 1,241,490 series B units: Series B Units at a price of \$4.1351 per Series A Unit and \$4.135 per Series B Unit for aggregate gross proceeds to the Company of approximately \$10,000,000, less \$1,087,996 in underwriting commission, a \$443,277 fair value charge for 157,721 Broker Warrants issued (see Note 17(f)) and \$185,883 in other share issuance costs.
- (viii) During the three months ended March 31, 2020, 1,241,490 Common Shares were issued on the conversion of Series B Pre-funded warrants from the January 6, 2020 registered direct offering

(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:

	Number of options	Weighted average exercise price	Average remaining contractual life (years)
Options exercisable, January 1, 2019	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
Granted	535,475	3.35	
Exercised	(50)	4.10	
Forfeited	(77,000)	25.56	
Expired	(195)	8,444.03	
Options outstanding, March 31, 2020	1,509,895	\$ 12.76	7.19
Options exercisable, March 31, 2020	628,426	\$ 19.74	7.00

NEOVASC INC.

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17. SHARE CAPITAL (continued)

(c) Stock options (continued)

The following table lists the options outstanding as at March 31, 2020 by exercise price:

Exercise price	Options outstanding	Weighted average remaining term (yrs)	Options exercisable	Weighted average remaining term (yrs)
\$3.35	535,475	7.80	133,883	7.80
\$4.10	513,100	6.98	256,550	6.98
\$5.00	127,200	7.16	32,738	7.16
\$8.80	87,867	6.67	59,142	6.67
\$27.20	239,426	6.50	141,018	6.50
\$27.30 - \$7,898.10	6,902	4.68	5,095	4.38
	1,509,895		628,426	

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	

During the three months ended March 31, 2020, the Company recorded \$922,883, as compensation expense for share-based compensation awarded to eligible optionees (three months ended March 31, 2019: \$1,036,148). 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:

	2020	2019
Weighted average fair value	\$ 2.86	\$ 3.60
Weighted average exercise price	\$ 3.35	\$ 4.30
Weighted average share price at grant	\$ 3.35	\$ 4.30
Dividend yield	nil	nil
Volatility	143%	141%
Risk-free interest rate	1.60%	1.51%
Expected life	4 years	4 years
Forfeiture rate	7.00%	7.00%

NEOVASC INC.

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17. SHARE CAPITAL (continued)

(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 three months ended March 31, 2020 was \$145,440. As of March 31, 2020, the total remaining unrecognized compensation cost related to RSUs amounted to approximately \$1,213,718, 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, 2019	152,956	\$2.98
Granted	330,000	\$3.12
Vested	-	-
Outstanding, March 31, 2020	482,956	\$3.07

(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 March 31, 2020.

Warrants	As at November 17, 2017	Issued	Exercised	Exchanged	As at March 31, 2020
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.

NEOVASC INC.

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17. SHARE CAPITAL (continued)

(e) Warrants (continued)

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.

As part of the underwriter's compensation in the January 2020 Financing, the Company issued the 2020 Broker Warrants to purchase up to 157,721 Common Shares at an exercise price of \$5.1689 per Common Share for a period of three years following issuance. The fair value of \$443,277 for the 2020 broker warrants was computed using the Black-Scholes pricing model with the following assumptions: a) average risk-free interest rate of 1.60%; b) expected life of 4 years; c) the price of the stock on the grant date of \$3.47; d) expected volatility of 140%; and e) no expected dividend payments.

18. 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 three months ended	
	March 31,	
	2020	2019
REVENUE		
Europe	\$ 480,395	\$ 519,293
Rest of the World	52,500	66,500
United States	-	-
	\$ 532,895	\$ 585,793

Sales to the Company's three largest customers accounted for approximately 22%, 15%, and 12% of the Company's sales for the three months ended March 31, 2020. Sales to the Company's three largest customers accounted for approximately 17%, 10%, and 8% of the Company's sales for the three months ended March 31, 2019.

NEOVASC INC.

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19. EMPLOYEE BENEFITS EXPENSE

	For the three months ended March 31,	
	2020	2019
Salaries and wages	\$ 2,148,925	\$ 1,991,227
Pension plan and employment insurance	207,445	171,682
Contribution to defined contribution pension plan	49,063	47,512
Health benefits	176,342	126,030
Cash-based employee expenses	2,581,775	2,336,451
Share-based payments	1,068,323	1,036,148
Total employee expenses	\$ 3,650,098	\$ 3,372,599

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

	For the three months ended March 31,	
	2020	2019
EXPENSES		
Selling expenses		
Share-based payment	\$ 50,188	\$ 46,573
Cash-based employee expenses	183,268	119,067
Other expenses	320,073	202,593
	\$ 553,529	\$ 368,233
General and administrative expenses		
Depreciation	65,503	32,648
Share-based payments	623,693	586,543
Cash-based employee expenses	483,713	513,557
Accretion on collaboration, license and settlement agreements provision	47,845	127,095
Other expenses	1,266,748	1,421,088
	\$ 2,487,502	\$ 2,680,931
Product development and clinical trials expenses		
Depreciation	118,407	111,934
Share-based payments	394,442	403,032
Cash-based employee expenses	1,914,794	1,703,827
Other expenses	2,095,763	2,021,170
	4,523,406	4,239,963
TOTAL EXPENSES	\$ 7,564,437	\$ 7,289,127
Depreciation per Statements of Cash Flows	\$ 183,910	\$ 144,582
Share-based payments per Statements of Cash Flows	\$ 1,068,323	\$ 1,036,148
Cash-based employee expenses (see Note 19)	\$ 2,581,775	\$ 2,336,451

NEOVASC INC.

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21. LOSS PER SHARE

Both the basic and diluted loss per share have been calculated using the loss attributable to shareholders of the Company as the numerator. The weighted average number of Common Shares outstanding used for basic loss per share for the three months ended March 31, 2020 amounts to 10,924,957 (three months ended March 31, 2019: 4,019,825)

	For the three months ended March 31,	
	2020	2019
Weighted average number of Common Shares	10,924,957	4,019,825
Loss for the period	\$ (4,111,591)	\$ (8,615,375)
Basic and diluted loss per share	\$ (0.38)	\$ (2.10)

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.

22. 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 three months ended March 31,	
	2020	2019
Short-term employee benefits		
Employee salaries and bonuses	\$ 404,726	\$ 357,023
Directors fees	67,500	67,500
Social security and medical care costs	39,556	34,652
	511,782	459,175
Post-employment benefits		
Contributions to defined contribution pension plan	8,694	8,741
Share-based payments	567,431	624,678
Total key management remuneration	\$ 1,087,907	\$ 1,092,594

NEOVASC INC.

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23. 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 (the ‘Appeals Court’). 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. On March 30, 2020, the German Court Supreme Court granted CardiAQ leave to appeal the Appeal’s Court decision and CardiAQ has two months from the date of the decision to substantiate their appeal to the German Supreme Court.

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.

NEOVASC INC.

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23. 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 \$917,631 as at March 31, 2020 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 \$1,408,821 as at March 31, 2020 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.

24. SUBSEQUENT EVENTS

On April 27, 2020, the Company's application for the Paycheck Protection Program loan through the U.S. Small Business Administration were approved for approximately \$530,000. This program helps businesses keep their workforce employed during the COVID-19 crisis by providing relief in the form of a forgivable loan used for payroll costs. The amount is advanced in the form of a loan that is forgivable if the borrowers, being certain wholly-owned subsidiaries of the Company, allocate the funds principally for the purposes of retaining employees in the US through the payment of payroll and group health care benefits costs and other expenses in accordance with the loan agreement.

On April 30, 2020, the Panel granted the Company's request for an extension through August 17, 2020 to evidence compliance with the \$35 million minimum market value of listed securities requirement for continued listing on the Nasdaq.

On May 6, 2020, the Company has appointed John Panton, formerly the VP, Quality to Chief Quality Officer effective immediately.

NEOVASC INC.

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25. AUTHORIZATION OF FINANCIAL STATEMENTS

The condensed interim consolidated financial statements for the three months ended March 31, 2020 (including comparatives) were approved by the audit committee on behalf of the board of directors on May 4, 2020.

(signed) **Chris Clark**

Chris Clark, Chief Financial Officer

(signed) **Paul Geyer**

Paul Geyer, Director