CRH Medical Corporation

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Year Ended December 31, 2017
Financial Report

Trading Information: TSE (Symbol "CRH")
NYSE MKT (Symbol "CRHM")
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CRH MEDICAL CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2017

The following management discussion and analysis ("MD&A") should be read in conjunction with CRH Medical Corporation's (the "Company" or "CRH") audited consolidated financial statements for the years ended December 31, 2017 and 2016 and the annual consolidated financial statements and the corresponding notes thereto for the year ended December 31, 2017. The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Unless otherwise specified, all financial data is presented in United States dollars. This MD&A is as of March 2, 2018.

Additional information related to the Company, including the Company's Annual Information Form is available on SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Information included or incorporated by reference in this report may contain forward-looking statements. This information may involve known and unknown risks, uncertainties, and other factors which may cause our actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "plan," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology. Certain risks underlying our assumptions are highlighted below; if risks materialize, or if assumptions prove otherwise to be untrue, our results will differ from those suggested by our forward looking statements and our results and operations may be negatively affected. Forward looking statements in this report include statements regarding profitability, additional acquisitions, increasing revenue and Operating EBITDA, continued growth of our business in line with historical growth rates, trends in our industry, financing plans, our anticipated needs for working capital and leveraging our capabilities. Actual events or results may differ materially from those discussed in forward-looking statements. There can be no assurance that the forward-looking statements currently contained in this report will in fact occur. The Company bases its forward-looking statements on information currently available to it. The Company disclaims any intent or obligations to update or revise publicly any forward-looking statements whether as a result of new information, estimates or options, future events or results or otherwise, unless required to do so by law. Forward-looking information reflects current expectations of management regarding future events and operating performance as of the date of this document. Such information involves significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in forward-looking information, including, without limitation: our ability to identify and complete corporate transactions on favorable terms or achieve anticipated synergies relating to any acquisitions or alliances; our ability to manage growth and achieve our expansion strategy; changes to payment rates or methods of third-party payors, including United States government healthcare programs, changes to the United States laws and regulations that regulate payments for medical services, the failure of payment rates to increase as our costs increase, or changes to our payor mix; decreases in our revenue and profit margin under our fee for service contracts and arrangements, where we bear the risk of changes in

volume, payor mix, Radiology, Anesthesiology and Pathology benefits, and third-party reimbursement rates; Ambulatory Surgical Centers or other customers may terminate or choose not to renew their agreements with us; our need to raise additional capital to fund future operations; the effect of various restrictive covenants and events of default under the Credit Facilities; we may still be able to incur substantially more debt, which could further exacerbate the risks associated with increased leverage; significant price and volume fluctuation of our share prices; the risk that we may write-off intangible assets; the operating margins and profitability of our anesthesia segment could be adversely affected if we are unable to maintain or increase anesthesia procedure volumes at our existing Ambulatory Surgical Centers; we may not be able to successfully recruit and retain qualified anesthesiologists or other independent contractors; adverse events related to our product or our services may subject us to risks associated with product liability, medical malpractice or other legal claims, insurance claims, product recalls and other liabilities, which may adversely affect our operations; our industry's health and safety risks; Affordable Care Act reform in the United States may have an adverse effect on our business, financial condition, results of operations and cash flows and the trading price of our securities, financial condition, results of operations and cash flows and the trading price of our securities; failure to manage third-party service providers may adversely affect our ability to maintain the quality of service that we provide; income tax audits and changes in our effective income tax rate could affect our results of operations; our dependence on suppliers could have a material adverse effect on our business, financial condition and results of operations; unfavorable economic conditions could have an adverse effect on our business; we may be subject to a variety of regulatory investigations, claims, lawsuits, and other proceedings; if we are unable to adequately protect or enforce our intellectual property, our competitive position could be impaired; we may not be successful in marketing our products and services; our employees and third-party contractors may not appropriately record or document services that they provide; failure to timely or accurately bill for services could have a negative impact on our net revenue, bad debt expense and cash flow; we may be unable to enforce the non-competition and other restrictive covenants in our agreements; our senior management has been key to our growth, and we may be adversely affected if we lose any member of our senior management; our industry is already competitive and could become more competitive; if there is a change in federal or state laws, rules, regulations, or in interpretations of such federal or state laws, rules or regulations, we may be required to redeem our physician partners' ownership interests in anesthesia companies under the savings clause in our joint venture operating agreements; changes in the United States federal Anti-Kickback Statute and Stark Law and/or similar state laws, rules, and regulations could result in criminal offences and potential sanctions; our employees and business partners may not appropriately secure and protect confidential information in their possession; we are dependent on complex information systems; we may be subject to criminal or civil sanctions if we fail to comply with privacy regulations regarding the protection, use and disclosure of patient information; we have a legal responsibility to the minority owners of the entities through which we own our anesthesia services business, which may conflict with our interests and prevent us from acting solely in our own best interests; a significant number of our affiliated physicians could leave our affiliated Ambulatory Surgical Centers; if regulations or regulatory interpretations change, we may be obligated to re-negotiate agreements of our anesthesiologists or other contractors; the continuing development of our products and provision of our services depends upon us maintaining strong relationships with physicians; we operate in an industry that is subject to extensive federal, state, and local regulation, and changes in law and regulatory interpretations; unfavorable changes or conditions could occur in the states where our operations are concentrated; government authorities or other parties may assert that our business practices violate antitrust laws; if we were to lose our foreign private issuer status under United States federal securities laws, we would likely incur additional expenses associated with compliance with United States securities laws applicable to United States domestic issuers; significant shareholders of the Company could influence our business operations, and sales of our shares by such significant shareholders could influence our share price; anti-takeover provisions could discourage a third party from making a takeover offer that

could be beneficial to our shareholders; changes in the medical industry and the economy may affect the Company’s business; our industry is the subject of numerous governmental investigations into marketing and other business practices which could result in the commencement of civil and/or criminal proceedings, substantial fines, penalties, and/or administrative remedies, divert the attention of our management, and have an adverse effect on our financial condition and results of operations; evolving regulation of corporate governance and public disclosure may result in additional expenses and continuing uncertainty; we may face exposure to adverse movements in foreign currency exchange rates.

For a complete discussion of the Company's business including the assumptions and risks set out above, see the Company's annual information form which is available on SEDAR at www.sedar.com.

OVERVIEW

CRH Medical Corporation ("CRH") is a North American company focused on providing gastroenterologists ("GI's") with innovative services and products for the treatment of gastrointestinal ("GI") diseases. In 2014, CRH acquired a full service gastroenterology anesthesia company, Gastroenterology Anesthesia Associates, LLC ("GAA"), which provides anesthesia services for patients undergoing endoscopic procedures. CRH has complemented this transaction with fourteen additional acquisitions of GI anesthesia companies since GAA.

According to the Centers for Disease Control and Prevention ("CDS"), colorectal cancer is the second leading cause of cancer-related deaths in the United States and recent research indicates that the incidence of colon cancer in young adults is on the rise. The CDS has implemented campaigns to raise awareness of GI health and drive colorectal cancer screening rates among at risk populations. Colon cancer is treatable if detected early and screening colonoscopies are the most effective way to detect colon cancer in its early stages. Anesthesia-assisted endoscopies are the standard of care for colonoscopies and upper endoscopies.

CRH's goal is to establish itself as the premier provider of innovative products and essential services to GI's throughout the United States. The Company's CRH O'Regan System distribution strategy focuses on physician education, patient outcomes, and patient awareness. The O'Regan System is a single use, disposable, hemorrhoid banding technology that is safe and highly effective in treating hemorrhoid grades I – IV. CRH distributes the CRH O'Regan System, treatment protocols, operational and marketing expertise as a complete, turnkey package directly to physicians, allowing CRH to create meaningful relationships with the physicians it serves.

The Company has financed its cash requirements primarily from revenues generated from the sale of its product directly to physicians, GI anesthesia revenue, equity financings, debt financings and a revolving and term credit facility. The Company's ability to maintain the carrying value of its assets is dependent on successfully marketing its products and services, obtaining reasonable rates for anesthesia services and maintaining future profitable operations, the outcome of which cannot be predicted at this time. The Company has also stated its intention to acquire or develop additional GI anesthesia businesses. In the future, it may be necessary for the Company to raise additional funds for the continuing development of its business plan, including additional acquisitions.

For further information about CRH Medical Corporation, including the Company's Annual Information Form, please visit the Company website at www.crhmedcorp.com or www.sedar.com, or email us at ir@crhmedcorp.com.

SELECTED IFRS FINANCIAL INFORMATION

	2017	2016	2015
Anesthesia services revenue	$ 88,741,075	$ 67,821,879	$ 34,496,035
Product sales revenue	11,501,005	10,532,753	9,552,445
Total revenue	**100,242,080**	**78,354,632**	**46,048,480**
Total operating expenses, including:	**85,688,084**	**53,599,792**	**32,617,294**
Depreciation and amortization expense	23,805,145	14,932,118	6,859,393
Stock based compensation expense	3,454,011	1,376,674	2,749,452
Impairment of professional services agreement	6,653,015	-	389,693
Operating income	**14,553,996**	**24,754,840**	**13,431,186**
Net and comprehensive income	**$ 13,668,118**	**$ 16,076,328**	**$ 3,259,828**
Attributable to:			
Shareholders of the Company	6,558,966	10,564,233	3,076,191
Non-controlling interest[1]	7,109,152	5,512,095	183,637
Earnings per share attributable to shareholders:			
Basic	$ 0.089	$ 0.147	$ 0.045
Diluted	$ 0.087	$ 0.142	$ 0.043
Total assets	$ 198,450,878	$ 163,538,882	$ 104,495,278
Total non-current liabilities	$ 64,331,015	$ 54,523,444	$ 39,389,376
Total liabilities	$ 73,514,590	$ 66,612,595	$ 47,520,913

NON-IFRS FINANCIAL MEASURES

In addition to results reported in accordance with IFRS, the Company uses certain non-IFRS financial measures as supplemental indicators of its financial and operating performance. These non-IFRS financial measures include Adjusted operating EBITDA and Adjusted operating expenses. The Company believes these supplementary financial measures reflect the Company's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in its business.

SELECTED FINANCIAL INFORMATION – NON-IFRS MEASURES

	2017	2016	2015
Total Adjusted operating expenses[2]	**$ 51,107,595**	**$ 36,864,304**	**$ 22,016,845**
Adjusted operating EBITDA[3] – non-controlling interest[1]	14,798,542	9,119,211	607,289
Adjusted operating EBITDA[3] - shareholders of the Company	**34,335,942**	**32,371,117**	**23,424,346**
Adjusted operating EBITDA[3] - total	**$ 49,134,485**	**$ 41,490,328**	**$ 24,031,635**

[1] Non-controlling interest reflects the ownership interest of persons holding non-controlling interests in non-wholly owned subsidiaries of the Company.

[2] Adjusted operating expenses: This is a non-IFRS measure defined as operating expenses before acquisition related expenses, stock based compensation, depreciation, amortization and asset impairment charges. Refer to the end of this document for the reconciliation of reported financial results to non-IFRS measures.

[3] Adjusted operating EBITDA: This is a non-IFRS measure defined as operating income before interest, taxes, depreciation, amortization, stock based compensation, acquisition related expenses and asset impairment charges. Refer to the end of this document for the reconciliation of reported financial results to non-IFRS measures.

RECENT EVENTS

In June 2017, the Company amended its Scotia Facility to provide financing of up to $100,000,000, from $55,000,000, via a revolving and term facility. In conjunction with the amendment to the Scotia Facility, the company repaid and extinguished its Crown note, consolidating all of the Company's debt facilities into one.

The increase in the Scotia Facility has aided in facilitating the Company's goal of consolidating the highly fragmented gastroenterology anesthesia provider business by enabling the Company to complete an additional four acquisitions in the third quarter of 2017 on top of the two acquisitions completed earlier in the year. Acquisitions completed in 2017 are highlighted below, along with recent events impacting the Company:

Normal Course Issuer Bid ("NCIB") – November 2017

In November 2017, the Company received approval from the Toronto Stock Exchange of its intention to make a Normal Course Issuer Bid. Pursuant to the bid, the Company may purchase for cancellation up to 7,120,185 of its common shares ("Common Shares"), or approximately 10% of the Common Shares outstanding as of the date of this announcement (representing 10% of the public float). As of October 31, 2017, there were 74,127,238 Common Shares of the Company issued and outstanding, and the public float consisted of 71,201,855 Common Shares.

The Bid is being adopted in addition to, and not as a substitute for, other investments in growth opportunities historically undertaken and contemplated by the Company. The Bid will be funded through the Company's internally generated cash flow from operations. As of December 31, 2017, the Company repurchased 1,339,800 of its shares for a total cost, including transaction fees, of $2,872,713 (CAD$3,669,120). As at December 31, 2017, 1,267,400 of these shares have been cancelled with the remaining 72,400 shares cancelled on January 5, 2018.

CMS 2018 Medicare Final Physician Fee Schedule – November 2017

The final CMS 2018 Medicare Physician Fee Schedule was announced on November 2, 2017 and updates payment policies, payment rates, and other provisions for services furnished under the Medicare Physician Fee Schedule on or after January 1, 2018.

The Proposed Rule changes the billing structure for CRH's primary billing code for anesthesia provided in conjunction with a lower endoscopy by eliminating the existing billing code and replacing it with two new billing codes. The new billing codes will have the net effect of decreasing the amount CRH will likely bill and collect for anesthesia services provided in conjunction with a lower endoscopy. At this point, the Company expects that the new billing codes will be adopted by all commercial and federal payors effective January 1, 2018.

When announced, the Company analyzed the impact of the new codes on its business and determined that if the new codes were implemented as proposed based on our then current financial results, anesthesia revenue would decrease by approximately 12% and total revenue would decrease by approximately 10.5%. In addition, our total adjusted operating EBITDA[1] would decrease by approximately 20.0%.

As a result of the potential decrease in revenues and adjusted operating EBITDA[1], the Company has reviewed the exclusive professional services agreements for impairment triggers, and performed impairment testing accordingly on certain agreements. As a result of this analysis, an impairment of the GAA professional services agreement was identified and an impairment charge of $6,653,015 was taken in the fourth quarter of 2017. The value of the company's exclusive professional services agreements are sensitive to assumptions underlying revenue growth. Future declines in revenue may require additional impairment

[1] Adjusted operating EBITDA: This is a non-IFRS measure defined as operating income before interest, taxes, depreciation, amortization, stock based compensation, acquisition related expenses and asset impairment charges. Refer to the end of this document for the reconciliation of reported financial results to non-IFRS measures.

analysis. In conjunction with the impairment of the GAA professional services agreement, the Company re-evaluated its earn-out obligation in respect of the GAA acquisition for the CMS changes. As a result of this review, the Company reduced its earn-out obligation to $1,875,427 at December 31, 2017 and recorded $11,747,441 as a finance recovery in the year ended December 31, 2017.

Alamo Sedation Associates, LLC ("ASA") – September 2017

On September 28, 2017, a subsidiary of the Company entered into an asset purchase agreement to acquire 100% of certain assets of an anesthesia services provider in Texas. The purchase consideration, paid via cash, for the acquisition was $3,500,000. The fair value of the exclusive professional service agreement which was acquired as part of this acquisition is $3,500,000.

Raleigh Sedation Associates, LLC ("RSA") – September 2017

On September 21, 2017, a subsidiary of the Company entered into an agreement of contribution, merger and sale to acquire a 51% interest in Raleigh Sedation Associates, LLC ("RSA") and Blue Ridge Sedation Associates, PLLC ("BRSA"). In combination, these entities provide gastroenterology anesthesia services in North Carolina. The purchase consideration, paid via cash, for the acquisition of the Company's 51% interest was $7,248,960. The fair value of the exclusive professional service agreement which was acquired as part of this acquisition is $14,213,647.

Central Colorado Anesthesia Associates, LLC ("CCAA") – September 2017

On September 11, 2017, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire a 51% interest in Central Colorado Anesthesia Associates, LLC ("CCAA"), a gastroenterology anesthesia services provider in Colorado. The purchase consideration, paid via cash, for the acquisition of the Company's 51% interest was $7,888,919. The fair value of the exclusive professional service agreement which was acquired as part of this acquisition is $15,468,469.

West Florida Anesthesia Associates, LLC ("WFAA") – August 2017

On August 1, 2017, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire a 55% interest in West Florida Anesthesia Associates, LLC ("WFAA"), a gastroenterology anesthesia services provider in Ft Meyers, Florida. The purchase consideration, paid via cash, for the acquisition of the Company's 55% interest was $5,840,000. The fair value of the exclusive professional service agreement which was acquired as part of this acquisition is $10,606,192.

Scotia Facility – June 2017

On June 26, 2017, the Company amended the Scotia Facility to provide financing of up to $100,000,000 via a revolving and term facility. The amended facility has a maturity date of June 26, 2020. In conjunction with this amendment, the Company incurred fees of $445,598. As at December 31, 2017, the Company had drawn $61,700,000 on the amended facility (2016 - $29,000,000).

Crown Extinguishment – June 2017

In conjunction with an increase to the Scotia Facility, the Company repaid in full the principal owing on the Crown Note of CAD$22,500,000 ($17,043,750), with related interest, prepayment penalties and other extinguishment costs of CAD$1,568,384 ($1,188,051). As a result of the extinguishment of the Crown Note, the Company recorded finance expense of $1,789,882 during the quarter ended June 30, 2017.

Osceola Gastroenterology Anesthesia Associates, LLC ("OGAA") – March 2017

In March 2017, a subsidiary of the Company entered into a membership interest purchase agreement to acquire a 60% interest in Osceola Gastroenterology Anesthesia Associates, LLC ("OGAA"), a gastroenterology anesthesia services provider in Kissimmee, Florida. The purchase consideration, paid via cash, for the acquisition of the Company's 60% interest was $3,401,819. The fair value of the exclusive professional service agreement which was acquired as part of this acquisition is $5,669,698.

Puget Sound Gastroenterology – March 2017

In March 2017, the Company entered into an exclusive agreement to develop and manage a monitored anesthesia care program with Puget Sound Gastroenterology, located in Washington State. Under the terms of the agreement, CRH has the option to acquire a 51% interest in the newly created anesthesia business at a future date, but no sooner than 12 months from March 2017 and up to June 30, 2019. Until such time as the option to purchase is exercised, the Company will not recognize any material revenue or expense from this transaction.

DDAB, LLC ("DDAB") – February 2017

In February 2017, a subsidiary of the Company entered into a membership purchase interest purchase agreement to acquire a 51% interest in DDAB, LLC ("DDAB"), a gastroenterology anesthesia services provider in Decatur, Georgia. The purchase consideration, paid via cash, for the acquisition of the Company's 51% interest was $4,089,791 plus contingent consideration of $1,183,779, which was paid in the third quarter of 2017. The fair value of the exclusive professional service agreement which was acquired as part of this acquisition is $10,340,333.

NON-IFRS FINANCIAL MEASURES

In addition to results reported in accordance with IFRS, the Company uses certain non-IFRS financial measures as supplemental indicators of its financial and operating performance. These non-IFRS financial measures include Adjusted operating EBITDA and Adjusted operating expenses. The Company believes these supplementary financial measures reflect the Company's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in its business.

The Company defines Adjusted operating EBITDA as operating earnings before interest, taxes, depreciation, amortization, stock based compensation, acquisition related expenses and asset impairment charges. Adjusted operating EBITDA is presented on a basis consistent with the Company's internal management reports. The Company discloses Adjusted operating EBITDA to capture the profitability of its business before the impact of items not considered in management's evaluation of operating unit performance.

The Company defines Adjusted operating expenses as operating expenses before expenses related to acquisitions, stock based compensation, depreciation, amortization and asset impairment charges. Adjusted operating expenses is presented on a basis consistent with the Company's internal management reports. The Company discloses Adjusted operating expenses to capture the non-operational expenses of the business before the impact of items not considered by management to impact operating decisions. The Company also discloses Adjusted operating expenses by segment.

Adjusted operating EBITDA and Adjusted operating expenses do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies. The Company cautions readers to consider these non-IFRS financial measures in addition to, and not as an alternative for, measures calculated in accordance with IFRS.

Refer to the end of this document for the reconciliation of reported financial results to non-IFRS measures.

SELECTED FINANCIAL INFORMATION – IFRS and NON-IFRS MEASURES

	2017	2016	2015
Anesthesia services revenue	$ 88,741,075	$ 67,821,879	$ 36,496,035
Product sales revenue	11,501,005	10,532,753	9,552,445
Total revenue	**100,242,080**	**78,354,632**	**46,048,480**
Adjusted operating expenses[1]			
Anesthesia services	42,834,918	29,767,269	15,528,409
Product sales	4,568,422	4,059,858	3,723,633
Corporate	3,704,255	3,037,177	2,764,803
Total Adjusted operating expenses[1]	**$ 51,107,595**	**$ 36,864,304**	**$ 22,016,845**
Adjusted operating EBITDA[2] – non-controlling interest[3]	14,798,542	9,119,211	607,289
Adjusted operating EBITDA[2] - shareholders of the Company	**34,335,943**	**32,371,117**	**23,424,346**
Adjusted operating EBITDA[2] – total	**$ 49,134,485**	**$ 41,490,238**	**$ 24,031,635**
Adjusted Operating EBITDA[2] per share attributable to shareholders:			
Basic	$ 0.466	$ 0.451	$ 0.345
Diluted	$ 0.455	$ 0.436	$ 0.331

[1] Adjusted operating expenses: This is a non-IFRS measure defined as operating expenses before acquisition related expenses, stock based compensation, depreciation, amortization and asset impairment charges. Refer to the end of this document for the reconciliation of reported financial results to non-IFRS measures.

[2] Adjusted operating EBITDA: This is a non-IFRS measure defined as operating income before interest, taxes, depreciation, amortization, stock based compensation, acquisition related expenses and asset impairment charges. Refer to the end of this document for the reconciliation of reported financial results to non-IFRS measures.

[3] Non-controlling interest reflects the ownership interest of persons holding non-controlling interests in non-wholly owned subsidiaries of the Company.

RESULTS OF OPERATIONS – three months and year ended December 31, 2017

Except where otherwise indicated, all financial information discussed below is 100% of the consolidated results of the Company and includes both the Company's interest in subsidiaries, as well as the interest of persons holding non-controlling interests in non-wholly owned subsidiaries of the Company.

Revenue

Revenues for the year ended December 31, 2017 were $100,242,080 compared to $78,354,632 for the year ended December 31, 2016. The increase is mainly attributable to revenue contributions from the anesthesia businesses acquired by the Company in 2017, along with acquisitions completed mid-year in fiscal 2016. Revenues for the three months ended December 31, 2017 reflect the revenue contributions from anesthesia businesses acquired earlier in the year and were $32,302,854, an increase of $6,480,751 when compared to the three months ended December 31, 2016.

Revenues from anesthesia services for the year ended December 31, 2017 were $88,741,075 compared to $67,821,879 for the year ended December 31, 2016. As above, the increase was primarily due to the Company's anesthesia acquisitions throughout 2017 and 2016; however, there were a number of factors which impacted the change in revenue between fiscal 2017 and fiscal 2016. The $20.9 million increase in revenue from the prior period is reflective of the following:

- growth through acquisitions contributed $23.4 million of the increase when comparing the two periods. This is comprised of growth from acquisitions completed in 2017 ($14.3 million) and growth from acquisitions completed in 2016 ($9.2 million);
- a change in our commercial payor mix and rates within our commercial payors contributed a decrease in revenue of $4.6 million when compared to revenues from 2016. This is largely isolated to acquisitions completed within 2014 and 2015;
- a positive adjustment as a result of the change in the impact of revenue estimates of $1.4 million, when compared to 2016; and
- revenue growth from our exclusive agreement to develop and manage a monitored anesthesia care program with Puget Sound Gastroenterology of approximately $0.7 million (see recent events).

Anesthesia revenues for the three months ended December 31, 2017 were $29,230,584 compared to $23,008,147 for the three months ended December 31, 2016. The $6.2 million increase in revenue from the prior period is reflective of the following:

- increased revenue from acquisitions completed in 2017, of $9.6 million
- a change in our commercial payor mix and rates within our commercial payors contributed a decrease in revenue of $3.4 million when compared to revenues from 2016;
- a negative adjustment as a result of the change in the impact of revenue estimates of $0.2 million, when compared to the 2016 year to date period; and
- revenue growth from our exclusive agreement with Puget Sound Gastroenterology of approximately $0.3 million (see recent events).

During the three months and year ended December 31, 2017, revenue was affected by changes in the percentage of patient cases covered by commercial insurance versus federal insurance. Revenue was also affected by commercial payor mix changes that result from the annual process that insured individuals and companies go through when renewing their health insurance policies and from changes in rates from commercial payors as the Company executes contracts with payors. Changes in payor mix could have a positive or negative impact on revenues. The commercial payor mix changes described above primarily relate to one payor at GAA. As adjusted operating expenses are largely fixed in nature, changes in revenue primary drive changes in operating income and adjusted operating EBITDA.

In the year ended December 31, 2017, the anesthesia services segment serviced 201,578 patient cases compared to 141,020 patient cases during the year ended December 31, 2016. Patient cases serviced in the fourth quarter of 2017 were 64,684 compared to 45,041 patient cases in the fourth quarter of 2016.

The tables below summarizes our approximate payor mix as a percentage of all patient cases for the years ended December 31, 2017 and 2016 and for the fourth quarters of 2017 and 2016.

	Three months ended			**Years ended**		
Payor	**December 31, 2017**	**December 31, 2016**	**Change**	**December 31, 2017**	**December 31, 2016**	**Change**
Federal	34.5%	34.1%	1.0%	37.3%	38.0%	(1.8%)
Commercial	65.5%	65.9%	(0.6%)	62.7%	62.0%	1.1%
Total	**100.0%**	**100.0%**		**100.0%**	**100.0%**	

The payor mix for the three months and year ended December 31, 2017 includes acquisitions completed during 2017 and as a result is not directly comparable to the three months and year ended December 31, 2016. As we acquire anesthesia providers, these providers may have different payor mix profiles and impact our overall payor mix above.

The table below summarizes our approximate payor mix as a percentage of all patient cases for the year and three months ended December 31, 2017 and 2016, but exclude patient cases related to acquisitions completed in 2017.

	Three months ended			**Years ended**		
Payor	**December 31, 2017**	**December 31, 2016**	**Change**	**December 31, 2017**	**December 31, 2016**	**Change**
Federal	33.2%	34.1%	(2.6%)	36.4%	38.0%	(4.2%)
Commercial	66.8%	65.9%	1.4%	63.6%	62.0%	2.6%
Total	**100.0%**	**100.0%**		**100.0%**	**100.0%**	

The table below summarizes our approximate payor mix as a percentage of all patient cases for the year ended December 31, 2017, by quarter, and excludes patient cases related to acquisitions completed in 2017.

Payor	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Federal	33.2%	37.0%	38.1%	37.7%
Commercial	66.8%	63.0%	61.9%	62.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

In 2018, the Company expects revenue from anesthesia services for the acquisitions completed through December 31, 2017 to be negatively impacted by the November 2, 2017 CMS final rule coming into effect on January 1, 2018 and to be negatively impacted by changes in the per unit reimbursements received from our commercial payors. The CMS final rule will impact our revenue per case by an estimated 12.5% and the changes from our commercial payors is expected to impact our revenue per case by an additional 5%. We expect the negative impacts to anesthesia revenue to be offset through organic growth in patient cases and deployment of available capital for future acquisitions.

Seasonality is driven by both patient cases and seasonal payor mix. As a result, revenue per patient will fluctuate quarterly. The seasonality of patient cases for fiscal 2017 is provided below for organic patient cases; it excludes patient cases relating to acquisitions completed in 2017.

Seasonality	Q4	Q3	Q2	Q1
Patient cases	26.9%	24.9%	24.4%	23.8%

Revenues from product sales for the year ended December 31, 2017 were $11,501,005 compared to $10,532,753 for 2016. The increase in product sales is the result of the continuing successful execution of the Company's direct to physician program that allows physicians to purchase our hemorrhoid banding technology, treatment protocols, marketing and operational experience. Revenues from product sales for the three months ended December 31, 2017 were $3,072,270 compared to $2,813,956 for the three months ended December 31, 2016. As of December 31, 2017, the Company has trained 2,686 physicians to use the O'Regan System, representing 1,034 clinical practices. This compares to 2,414 physicians trained, representing 930 clinical practices, as of December 31, 2016.

In the future, the Company expects revenue from product sales to continue to increase, as it has historically, as we expand our physician network and increase physician use of our technology. Potentially offsetting these increases would be competitive pressures that could impact our market share or pricing power.

Total adjusted operating expenses

For the year ended December 31, 2017, total adjusted operating expenses were $51,107,595 compared to $36,864,304 for the year ended December 31, 2016. For the three months ended December 31, 2017, total adjusted operating expenses were $15,340,310 compared to $11,321,510 for the three months ended December 31, 2016. Increases in adjusted operating expenses are primarily related to adjusted operating expenses in the anesthesia services business. Factors impacting the fluctuation of total adjusted operating expenses are consistent with those impacting operating expenses.

Anesthesia services adjusted operating expenses for the year ended December 31, 2017 were $42,834,918, compared to $29,767,269 for the year ended December 31, 2016. Anesthesia services adjusted operating expenses primarily include labor related costs for Certified Registered Nurse Anesthetists and MD anesthesiologists, medical drugs and supplies, and billing and management related expenses. The Company's first anesthesia acquisition was in the fourth quarter of 2014, with fourteen further acquisitions completed in 2015, 2016 and 2017. As a result, fiscal 2017 is not directly comparable to 2016, with the

majority of the increase relating to operating expenses for acquired companies and as a result of infrastructure investments made by the Company throughout 2017. As the Company works toward its acquisition strategy, it has invested in resources and infrastructure to support its initiatives. The investment in resources and infrastructure contributed approximately $1.0 million in anesthesia adjusted operating expenses in the year. Anesthesia services adjusted operating expenses for the three months ended December 31, 2017 were $13,162,989 compared to $9,492,140 for the three months ended December 31, 2016. Similar to the year ended December 31, 2017, the last quarter of 2017 is not comparable to the same period in 2016 due to the timing of acquisitions. Investments in infrastructure and resources contributed approximately $0.1 million to anesthesia services adjusted operating expenses in the quarter. Though quarterly revenue may fluctuate significantly, quarterly adjusted operating expenses, which are primarily employee related costs, due to their fixed nature, are not expected to fluctuate materially. These expenses are primarily impacted by the Company's acquisition strategy

Product sales adjusted operating expenses for the year ended December 31, 2017 were $4,568,422 compared to $4,059,858 for the year ended December 31, 2016. The increase in product sales adjusted operating expenses compared to 2016 is a reflection of higher employee related costs as a result of increased sales activity as well as an increase in professional fees related to continuing efforts to distribute our product in China. Product sales expenses primarily include employee wages, product cost and support, marketing programs, office expenses, professional fees, and insurance. In the future, the Company expects adjusted operating expenses to increase as the Company continues to invest in activities aimed at increasing demand for training and use of the CRH O'Regan System. Product sales adjusted operating expenses for the three months ended December 31, 2017 were $1,295,163 compared to $1,083,481 for the three months ended December 31, 2016.

Corporate adjusted operating expenses for the year ended December 31, 2017 were $3,704,255 compared to $3,037,177 for the year ended December 31, 2016. The increase in corporate adjusted operating expense is a reflection of higher professional fees and employee related costs, and, in general, is reflective of the increasing complexity of our business which is also increasing our compliance costs. Corporate adjusted operating expenses for the three months ended December 31, 2017 were $882,158 compared to $745,889 for the three months ended December 31, 2016.

Operating Income

Operating income for the year ended December 31, 2017 was $14,553,996 compared to $24,754,840 for the same period in 2016. Contributing to the decrease in operating income for the year is an increase in total adjusted operating EBITDA of $7,647,170, offset by the following:

- the impairment charge taken in the fourth quarter of 2017 of $6,653,015 in relation to the GAA professional services agreements;
- incremental costs related to the amortization of acquired professional service agreements relating to acquisitions completed in 2016 and 2017 of $8,873,027; and
- an increase in stock based compensation expense of $2,077,337 and an increase in acquisition expenses of $241,624. The increase in stock based compensation expense relates primarily to restricted share units which are market based and which were granted to senior management.

Fluctuations in revenue will not necessarily result in correlating fluctuations in operating expenses due to the fixed nature of these costs and as such will impact operating income.

Operating income for the three months ended December 31, 2017 was $2,218,667 compared to income of $9,173,148 for the three months ended December 31, 2016. Contributing to the decrease in operating income for the three months is an increase in total adjusted operating EBITDA of $2,461,951, offset by the following:

- the impairment charge taken in the fourth quarter of 2017 of $6,653,015 in relation to the GAA professional services agreements;
- incremental costs related to the amortization of acquired professional service agreements relating to acquisitions completed in 2016 and 2017 of $2,450,269; and
- an increase in stock based compensation expense of $273,452 and an increase in acquisition expenses of $39,696.

Anesthesia operating income for the year ended December 31, 2017 was $14,425,651 a decrease of $8,166,242 from the same period in 2016. This decrease is primarily reflective of the impairment charge taken in the fourth quarter, as well as the incremental costs related to the amortization of acquired professional service agreements relating to acquisitions completed in 2016 and 2017, offset by the increase in operating EBITDA in the year. Anesthesia operating income for the three months ended December 31, 2017 was $2,074,900 compared to income of $8,622,390 for the three months ended December 31, 2016.

Product operating income for the year ended December 31, 2017 was $6,503,455, an increase of $473,812 from the same period in 2016. The increase is primarily a result of the increased revenue in the year ended December 31, 2017, offset by increases in employee related expenses and professional fees. Product operating income for the three months ended December 31, 2017 was $1,664,559 compared to $1,590,453 for the three months ended December 31, 2016.

Adjusted operating EBITDA

Adjusted operating EBITDA attributable to shareholders of the Company for the year ended December 31, 2017 was $34,335,942, an increase of $1,964,826 from the year ended December 31, 2016. The increase in adjusted operating EBITDA attributable to shareholders is primarily a reflection of the contributions from acquisitions completed in 2017, offset by the negative revenue rate and payor mix variances recorded in the year in respect of the Company's anesthesia providers acquired prior to 2016. Adjusted operating EBITDA attributable to shareholders of the Company for the three months ended December 31, 2017 was $11,489,153 an increase of $1,207,771 from the same period in 2016.

Adjusted operating EBITDA attributable to non-controlling interest was $14,798,542 for the year ended December 31, 2017. This comprises the non-controlling interests' share of revenues of $25,906,688 and adjusted operating expenses of $11,108,146. Adjusted operating EBITDA attributable to non-controlling interest was $5,473,391 for the three months ended December 31, 2017. This comprises the non-controlling interests' share of revenues of $9,394,392 and adjusted operating expenses of $3,921,001.

Total adjusted operating EBITDA was $49,134,485 for the year ended December 31, 2017, an increase of $7,644,156 from the same period in 2016. Total adjusted operating EBITDA was $16,962,544 for the three months ended December 31, 2017, an increase of $2,461,951 from the same period in 2016.

Net finance (income) / expense

As a result of the Company's debt facilities and long-term finance obligations, the Company has recorded a net finance recovery of $5,416,629 for the year ended December 31, 2017, compared to finance expense of $4,423,362 for the year ended December 31, 2016. The Company recorded a net finance recovery of $9,834,227 for the three months ended December 31, 2017, compared to net finance expense of $1,175,492 for the three months ended December 31, 2016. Net finance expense is comprised of both interest and other debt related expenses, including fair value adjustments, as well as foreign exchange gains and losses on the Crown debt which was denominated in Canadian dollars and the related cross currency swap the Company entered into on the Crown debt on January 21, 2016. The cross currency swap locked in the repayment of the Crown debt principal and interest at a Canadian dollar to U.S. dollar rate of 1.448. On June 26, 2017, the Company paid off and extinguished its Crown debt and settled the related cross currency swap. As a result of the extinguishment of the Crown debt and the amendment of the Scotia facility, the Company recorded finance expense of $2,044,867 related to these activities during the year ended December 31, 2017.

During the year ended December 31, 2017, the Company recognized a fair value adjustment (recovery of $11,747,441) in respect of its earn-out obligation. The fair value adjustment resulted from changes in estimates underlying the Company's earn-out obligation. The changes in estimates underlying the Company's earn-out obligation were driven by the changes in commercial and payor mix experienced in GAA, as well as the impact of the CMS changes described in the recent events section of this document. At the same time these estimates were updated, the Company also recorded an impairment charge relating to its GAA professional services agreements for the same reasons. In the fourth quarter of 2017, the Company recorded an impairment charge of $6,653,015 in respect of the GAA professional services agreements.

Cash interest paid in the year ended December 31, 2017 was $2,863,284 compared to $3,135,765 in the year ended December 31, 2016. Cash interest paid in the three months ended December 31, 2017 was $889,999, compared to cash interest of $709,239. Additionally, during 2017 the Company paid prepayment penalties and other cash extinguishment costs of $700,553; these costs are related to the extinguishment of the Crown debt in the second quarter of 2017. At December 31, 2017, the Company owed $61.7 million under the amended Scotia Facility as compared to $29.0 million owed at December 31, 2016. The Company

anticipates that, in future, cash interest will increase in comparison to 2017 cash interest paid as the Company draws on its Facility.

In the year ended December 31, 2017, after excluding the impact of foreign exchange and the finance expense recorded as a result of extinguishing the Crown debt and modifying the Scotia facility, the finance recovery was $7,549,580 compared to a finance expense of $5,431,035 recorded in the same period in 2016. Finance expense, excluding fair value adjustments, the impact of foreign exchange and extinguishment losses, was $4,197,861, compared to $5,226,077 for the year ended December 31, 2016.

The Company did not record any exchange gains or losses within finance income during the quarter as the Company did not hold any Canadian denominated debt in the period. In the quarter ended December 31, 2016, the Company recorded an exchange loss of $18,756 in relation to the Crown note and the cross currency swap. Finance expense, excluding fair value adjustments and foreign exchange was $1,098,649, compared to $1,293,504 for the quarter ended December 31, 2016. The fair value adjustment recorded in the quarter (recovery of $10,932,876) resulted from changes in estimates underlying the Company's earn-out obligation.

	Three months ended		Years ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Finance income:				
Foreign exchange (gain)	$ -	$ -	$ -	$ (1,007,673)
Net change in fair value of financial liabilities at fair value through earnings	(10,932,876)	(136,767)	(11,747,441)	
Total finance income	$ (10,932,876)	$ (136,767)	$ (11,747,441)	$ (1,007,673)
Finance expense:				
Interest and accretion expense on borrowings	$ 903,026	$ 1,075,429	$ 3,322,321	$ 4,042,240
Accretion expense on earn-out obligation and deferred consideration	138,361	143,801	600,602	560,150
Amortization of deferred financing fees	32,262	74,273	224,463	614,472
Net change in fair value of financial liabilities at fair value through earnings	-	-	-	204,958
Foreign exchange loss	-	18,756	88,084	-
Extinguishment of notes payable and bank indebtedness	-	-	2,044,867	-
Other	25,000	-	50,475	27,215
Total finance expense	$ 1,098,649	$ 1,312,259	$ 6,330,812	$ 5,431,035
Net finance (income) expense	$ (9,834,227)	$ 1,175,492	$ (5,416,629)	$ 4,423,362

Income tax expense

For the year ended December 31, 2017, the Company recorded an income tax expense of $6,302,507 compared to income tax expense of $4,255,150 for the year ended December 31, 2016. Income tax expense relates only to income attributable to the Company's shareholders. The Company recorded an income tax expense of $5,754,656 in the three months ended December 31, 2017 compared to $1,643,474 recorded in the three months ended December 31, 2016. The effective tax rate experienced in 2017 is not reflective of future expectations of the Company's effective tax rate as fiscal 2017 tax expense includes the impact of the downward change in the US tax rate on the Company's deferred tax items.

Net and comprehensive income

For the year ended December 31, 2017, the Company recorded net and comprehensive income attributable to shareholders of the Company of $6,558,966 compared to net and comprehensive income attributable to shareholders of $10,564,233 for the year ended December 31, 2016. The decrease year over year is largely a reflection of the decreased operating income in the year, offset by finance cost recoveries in the year. Finance expense is 100% allocable to shareholders.

For the three months ended December 31, 2017, the Company recorded net and comprehensive income attributable to shareholders of the Company of $3,282,256 compared to $3,469,948 for the same period in 2016.

Net and comprehensive income attributable to non-controlling interest was $7,109,152 for the year ended December 31, 2017. This is an increase of $1,597,057 from 2016 and reflects the business model adopted by CRH whereby recent acquisitions, though controlled by CRH, attribute a portion of income earned to non-controlling interests. Net and comprehensive income attributable to non-controlling interests was $3,015,981 for the three months ended December 31, 2017.

SUMMARY OF QUARTERLY RESULTS (Unaudited)

The following table sets forth certain unaudited consolidated statements of operations data for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the year ended December 31, 2017.

Seasonality impacts quarterly anesthesia and product revenues. With our expenses primarily fixed, adjusted operating EBITDA margins will fluctuate quarterly with operating EBITDA margins being greater during the fourth quarter of each year and operating EBITDA margins being less during the first quarter of each year. Seasonality also impacts net income as net income will fluctuate with fluctuations in adjusted operating EBITDA.

(in 000's of US$, except EPS)	Q4 '17	Q3 '17	Q2 '17	Q1 '17	Q4 '16	Q3 '16	Q2 '16	Q1 '16
Anesthesia services revenue	29,231	20,480	19,268	19,763	23,008	19,447	13,930	11,437
Product sales revenue	3,072	2,865	2,788	2,776	2,814	2,661	2,657	2,400
Total revenue	**32,303**	**23,345**	**22,055**	**22,539**	**25,822**	**22,108**	**16,587**	**13,837**
Total operating expense	**30,084**	**19,693**	**18,317**	**17,593**	**16,649**	**15,514**	**11,546**	**9,891**
Adjusted operating expenses[1]								
Anesthesia services[1]	13,163	10,363	9,840	9,469	9,492	8,794	6,158	5,323
Product sales[1]	1,295	1,094	1,142	1,037	1,083	974	1,004	998
Corporate[1]	882	994	844	985	746	685	853	754
Product sales – adjusted margin[5]	58%	62%	59%	63%	61%	63%	62%	58%
Anesthesia services – adjusted margin[5]	55%	49%	49%	52%	59%	55%	56%	53%
Total adjusted operating expenses[1]	**15,340**	**12,451**	**11,825**	**11,491**	**11,321**	**10,453**	**8,015**	**7,075**
Operating income	**2,219**	**3,652**	**3,738**	**4,946**	**9,173**	**6,595**	**5,041**	**3,946**
Adjusted operating EBITDA[2] - non-controlling interest[4]	5,473	3,119	2,878	3,329	4,219	2,533	1,518	848
Adjusted operating EBITDA[2] - shareholders of the Company	**11,490**	**7,775**	**7,352**	**7,719**	**10,281**	**9,122**	**7,054**	**5,914**
Adjusted operating EBITDA[2] - total	**16,963**	**10,894**	**10,230**	**11,048**	**14,500**	**11,655**	**8,572**	**6,762**
Net finance (income) expense	(9,834)	(400)	3,571	1,246	1,175	1,381	2,156	(289)
Income tax expense (recovery)[3]	5,755	603	(453)	397	1,643	188	1,219	1,204
Net income	**6,298**	**3,448**	**620**	**3,302**	**6,354**	**5,026**	**1,666**	**3,031**
Attributable to:								
Shareholders of the Company	3,282	2,228	(494)	1,542	3,470	2,870	1,269	2,956
Non-controlling interest[4]	3,016	1,219	1,114	1,760	2,884	2,156	397	75
Adjusted Operating EBITDA[2] per share attributable to shareholders								
Basic	0.156	0.105	0.099	0.106	0.142	0.127	0.099	0.083
Diluted	0.153	0.103	0.097	0.102	0.138	0.123	0.095	0.080
Earnings (loss) per share attributable to shareholders								
Basic	0.044	0.030	(0.007)	0.021	0.048	0.040	0.018	0.041
Diluted	0.044	0.030	(0.007)	0.020	0.047	0.039	0.017	0.040

[1] Adjusted operating expenses: This is a non-IFRS measure defined as operating expenses before acquisition related expenses, stock based compensation, depreciation, amortization and asset impairment charges. Refer to the end of this document for the reconciliation of reported financial results to non-IFRS measures.
[2] Adjusted operating EBITDA: This is a non-IFRS measure defined as operating earnings before interest, taxes, depreciation, amortization, stock based compensation, acquisition related corporate expenses and asset impairment charges. Refer to the end of this document for the reconciliation of reporting financial results to non-IFRS measures.
[3] Income tax expense for the three months ended September 30, 2016 includes an immaterial adjustment related to the prior quarters in 2016 associated with the non-controlling interests' share of income tax expense.
[4] Non-controlling interest reflects the ownership interest of persons holding non-controlling interests in non-wholly owned subsidiaries of the Company.
[5] Gross margin calculated with reference to sales less adjusted operating expenses

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2017, the Company had $12,486,884 in cash and cash equivalents compared to $9,507,004 at the end of 2016. The increase in cash and equivalents is primarily a reflection of cash generated from operations and debt financing activities, less cash used to finance normal course issuer bid repurchases and acquisitions during the first nine months of 2017, less repayment of debt in the period.

Working capital was $20,102,948 compared to working capital of $9,657,303 at December 31, 2016. The Company expects to meet its short-term obligations, including short-term obligations in respect of its notes payable and deferred consideration through cash earned through operating activities. The average number of days receivables outstanding at December 31, 2017 was 42 days. At December 31, 2016, the average number of days receivables outstanding was 34 days.

The Company has financed its operations primarily from revenues generated from product sales and anesthesia services and through equity and debt financings and a revolving credit facility. As of December 31, 2017, the Company has raised approximately $51 million from the sale and issuance of equity securities. The Company also obtained debt financing of $52 million via senior and subordinated credit facilities with Crown, Bloom Burton and Knight in 2014 and entered into a revolving credit facility with the Bank of Nova Scotia for $33 million in 2015, which was subsequently increased to $55 million in 2016. Most recently, the Company amended its debt facility with the Bank of Nova Scotia, increasing its facility to $100 million on June 26, 2017. As at December 31, 2017, the Company owed $61.7 million under the facility.

The Company's credit facilities are described as follows:

Crown Capital Fund III Management Inc. ("Crown Note")
On December 1, 2014, the Company entered into an agreement to borrow funds in the form of a subordinated note payable from Crown Capital Fund III Management Inc. At inception, the original amount of the note payable was CAD$22,500,000 (USD$19,863,000). The note bore interest at 12% per annum with a decrease to 10% upon repayment and performance in full of the Company's obligations under its senior credit agreement (see Scotia Facility). Interest on the note was payable on a quarterly basis beginning March 31, 2015, with the payment of the principal scheduled for June 1, 2018. In compensation for its services, the Company paid Crown a combination of cash CAD$1,350,000 (USD$1,191,780) and shares (2,000,000 common shares) in addition to reimbursement of legal costs in relation to issuance of the note. The Crown note was subordinate to the Scotia Facility. The note was classified as an other financial liability and recorded at amortized cost.

In conjunction with an increase to the Scotia Facility in June 2017, noted below, the Company repaid in full the principal owing on the Crown Note of CAD$22,500,000 ($17,043,750), with related interest, prepayment penalties and other extinguishment costs of CAD$1,568,384 ($1,188,051). As a result of the extinguishment of the Crown Note, the Company recorded finance expense of $1,789,882 representing the difference between the carrying value of the loan at extinguishment and the consideration transferred to extinguish its financial obligations under the Crown Note.

The Bank of Nova Scotia ("Scotia Facility")
On November 24, 2015, the Company entered into a credit facility with the Bank of Nova Scotia. The facility, which had a maturity date of April 30, 2018, provided financing of up to $55,000,000, after amendment on June 15, 2016. In conjunction with the 2016 amendment, the Company paid $390,400 in fees to the Bank of Nova Scotia and legal counsel.

On June 26, 2017, the Company amended the Scotia Facility to provide financing of up to $100,000,000 via a revolving and term facility. The amended facility has a maturity date of June 26, 2020. In conjunction with this amendment, the Company incurred fees of $445,598. As at December 31, 2017, the Company had drawn $61,700,000 on the amended facility (2016 - $29,000,000). The amendment was determined to be a substantial modification and the Company extinguished the previous Scotia facility and wrote off deferred financing costs related to the previous facility of $173,511. The Facility is repayable in full at maturity, with scheduled principal repayments on a quarterly basis beginning September 30, 2017 based on the initial principal issued under the term facility. The facility bears interest at a floating rate based on the US prime rate, LIBOR or bankers' acceptance rates plus an applicable margin. At December 31, 2017, interest on the facility is calculated at LIBOR plus 2.50% on the revolving portion and term portion of the facility. The Facility is secured by the assets of the Company. The Company is required to maintain the following financial covenants in respect of the Facility:

Financial Covenant	**Required Ratio**
Total funded debt ratio	2.50:1.00
Fixed charge coverage ratio	1.15:1.00

The Company is in compliance with all covenants at December 31, 2017.

Cash provided by operating activities for the year ended December 31, 2017 was $39,536,613 compared to $32,922,582 in the same period in fiscal 2016. Cash provided by operating activities for the quarter ended December 31, 2017 was $11,689,966 compared to $10,669,732 for the same period in fiscal 2016.

The Company's near-term cash requirements relate primarily to interest payments, quarterly principal payments in respect of the Scotia Facility, annual payments in respect of the deferred consideration in relation to the Austin acquisition, purchases under the Company's normal course issuer bid, operations, working capital and general corporate purposes, including further acquisitions. Based on the current business plan, the Company believes cash and cash equivalents and the availability of its revolving credit facility will be sufficient to fund the Company's operating, debt repayment and capital requirements for at least the next 12 months. The Company updates its forecasts on a regular basis and will consider additional financing sources as appropriate.

The following table summarizes the relative maturities of the financial liabilities of the Company at December 31, 2017:

At December 31, 2017		Maturity			
	TOTAL	Less than one year	One to three years	Four to five years	After five years
Trade and other payables	$ 5,661,844	$ 5,661,844	$ -	$ -	$ -
Employee benefits	500,754	500,754	-	-	-
Notes payable and bank indebtedness	68,502,574	4,018,179	64,484,395	-	-
Earn-out obligation	1,977,334	-	1,977,334	-	-
Deferred consideration	3,300,000	1,000,000	2,300,000	-	-
	$ 79,942,506	$ 11,180,777	$ 68,761,729	$ -	$ -

As at December 31, 2017, the Company has no material contractual obligations, other than those obligations relating to its leases of premises and those obligations under its debt agreements, deferred consideration agreements, normal course issuer bid agreements, and earn-out obligations as described above. The minimum lease payments in respect of the Company's leases will be $237,299 in fiscal 2018.

OUTSTANDING SHARE CAPITAL

As at December 31, 2017, there were 73,018,588 common shares issued and outstanding for a total of $53,925,537 in share capital.

As at December 31, 2017, there were 1,344,687 options outstanding at a weighted-average exercise price of $0.55 per share, of which 1,272,812 were exercisable into common shares at a weighted-average exercise price of $0.54 per share. As at December 31, 2017, there were 2,386,500 share units issued and outstanding.

As at March 2, 2018 there were 72,849,888 common shares issued and outstanding for a total of $53,801,901 in share capital. There are 1,344,687 options outstanding at a weighted-average exercise price of $0.53 per share, of which 1,344,687 are exercisable into common shares at a weighted average price of $0.53 per share. As at March 2, 2018, there are 2,386,500 share units issued and outstanding.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no material undisclosed off-balance sheet arrangements that have or are reasonably likely to have, a current or future effect on our results of operations or financial condition.

PROPOSED TRANSACTIONS

As at December 31, 2017, the Board of Directors had not committed to proceed with any proposed asset or business acquisitions or dispositions that are not disclosed herein.

TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its wholly owned subsidiaries and entities over which the Company has control have been eliminated on consolidation. Details of the transactions between the Companies and other related parties are disclosed below:

(a) Related party transactions:

The Company paid or accrued fees of $194,750 (2016 - $210,100) to Directors of the Company. Additionally, the Company made product sales totaling $39,485 (2016 - $37,277) to one company (2016 - four companies) owned or controlled by one of the Company's Directors (2016 – two of the Company's Directors). The transaction terms with related parties may not be on the same price as those that would result from transactions among non-related parties.

Until June 16, 2016, one of the directors of the Company was an indirect shareholder of KGAA:

(b) Key management personnel compensation, including directors, is as follows:

	2017	2016
Salaries, directors' fees and other benefits	$ 1,307,233	$ 1,369,329
Share-based payments	2,807,306	801,311
	$ 4,114,539	$ 2,170,640

(*i*) Share-based payments represent the amount expensed during the year for options granted.

(*ii*) There were no post-employment, termination or other long-term benefits paid during the years ended December 31, 2017 and 2016.

DISCLOSURE CONTROLS AND PROCEDURES (DCP) AND INTERNAL CONTROLS OVER FINANCIAL REPORTING (ICFR)

The Company's disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed in the prescribed filings and reports filed with the Canadian securities regulatory authorities is recorded, processed, summarized and reported on a timely basis. The Company's controls are also designed to provide reasonable assurance that information required to be disclosed is assimilated and communicated to senior management in a timely manner so that appropriate decisions can be made regarding public disclosure. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures and concluded that they provide reasonable assurance that material information relating to the Company was made known to them and reported as required.

Management has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards. Management, including the Company's Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate ICFR, which has been developed based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO (2013)). The Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the COSO (2013) framework and concluded that the Company's internal control over financial reporting was effective as of December 31, 2017.

Regardless of how well an internal control system is designed and operated, it can provide only reasonable, not absolute, assurance that all misstatements due to error or fraud will be detected or prevented from occurring in the financial statements due to the inherent limitations of any internal control system.

During 2017, there were no significant changes in the Company's internal controls over financial reporting that have materially affected or are reasonably likely to affect the Company's internal controls over financial reporting.

As permitted by National Instrument 52-109, the evaluation of the design of disclosure controls and procedures and internal controls over financial reporting does not include controls, policies and procedures covering the Company's acquisitions completed in the first quarter and third quarter of 2017. Prior to its acquisition by the Company, DDAB, OGAA, WFAA, CCAA, RSA and ASA were privately held companies. Revenues totaling $14,274,148 and net earnings before tax of $3,746,763 from these acquisitions were included in our consolidated financial statements for the year ended December 31, 2017.

CRITICAL ACCOUNTING ESTIMATES

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

Significant areas requiring the use of management estimates relate to the assessment for impairment and useful lives of intangible assets, determining the fair value of share units, estimates supporting reported anesthesia revenues, the recoverability of trade receivables, the valuation of certain long term liabilities and other assets, including liabilities relating to contingent consideration, the vesting term for share units with market and non-market based performance targets, the valuation of acquired intangibles, the valuation of deferred tax assets and the allocation of purchase consideration to the fair value of assets acquired and liabilities assumed.

Significant judgments made by management in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements includes the determination of functional currency and the accounting classification of financial instruments. In conjunction with the Company's business acquisitions, these judgments also include the Company's determination of control for the purposes of consolidation and the Company's definition of a business.

We consider the estimates and assumptions described in this section to be an important part in understanding the financial statements. These estimates and assumptions are subject to change, as they rely heaving on management's judgment and are based on factors that are inherently uncertain.

(a) Impairment and useful lives of long-lived assets**:**

The Company's intangible assets are comprised of purchased technology, purchased professional service agreements, and patents. The cost of the Company's intangible assets is amortized on a straight-line basis over the estimated useful life ranging from 2.5 to 20 years. Factors considered in estimating the useful life of intangible assets include the expected use of the asset by the Company, legal, regulatory and contractual provisions that may limit the useful life, and the effects of competition. Costs incurred to establish and maintain patents for intellectual property developed internally are expensed in the period incurred.

The carrying amounts of the Company's intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment as required by IAS 36. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of the intangible assets or their cash-generating unit exceeds their recoverable amount. Impairment losses are recognized in the statements of operations.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In accordance with IFRS if, subsequent to impairment, an asset's discounted future net cash flows exceeds its book value, the impairment previously recognized can be reversed. However, the asset's book value cannot exceed what its amortized book value would have been had the impairment not been recognized.

During the year ended December 31, 2017, the Company recorded an impairment charge of $6,653,015 in relation to the GAA professional services agreements acquired as part of the GAA acquisition. The impairment resulted from an identified decrease in EBITDA expectations as a result of changes in commercial payor mix experienced in 2017 as well as expectations of the impact of the CMS changes, effective January 1, 2018, and its impact on forecasted EBITDA.

(b) Revenue recognition – Anesthesia services:

Anesthesia services revenue consists primarily of patient revenues and is recognized as services are rendered. Patient service revenue is reported net of provisions for contractual allowances and other discounts from third party payors and patients. The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established billing rates. The differences between the estimated program reimbursement rates and the standard billing rates are accounted for as contractual adjustments, which are deducted from gross revenues to arrive at net operating revenues. Retroactive adjustments, if any, are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Accounts receivable resulting from such payment arrangements are recorded net of contractual

allowances. The provision for contractual allowances and discounts are recognized on an accrual basis. These amounts are deducted from gross service revenue to determine net service revenue.

(c) Accounts receivable and allowance for doubtful accounts:

The Company's accounts receivable are related to providing healthcare services to patients and the sale of product directly to physicians. Collection of these accounts receivable is the Company's primary source of cash and is critical to its operating performance. The Company's primary collection risks relate to patient deductibles, co-payments and self-insured amounts owed by the patient. The Company's estimate for the allowance for doubtful accounts is calculated based on historical experiences and collection experience. The Company believes that it collects substantially all of its receivables related to providing healthcare to patients, net of contractual allowances and from the sale of product directly to physicians. To date, the Company believes there has not been a material difference between bad debt allowances and the ultimate historical collection rates on accounts receivables. The Company reviews its overall bad debts reserve for adequacy by monitoring historical cash collections as a percentage of net revenue. Uncollected accounts are written off when management determines that the balance is uncollectible.

(d) Stock-based compensation:

The Company uses the fair-value based method of accounting for share-based compensation for all awards of shares units and stock options granted. Under the fair value based method, share-based awards to employees are measured at the fair value of the equity instrument issued as of the grant date using either the Black-Scholes or Binomial model and estimated forfeitures. The application of this pricing model requires management to estimate several variables, including the period for which the instrument is expected to be outstanding, price volatility of the Company's stock over the relevant timeframe, the determination of a relevant risk free interest rate, assumption regarding the Company's future dividend rate policy and estimate of the number of awards that will vest. Changes in one or more assumptions could materially impact the value derived for these equity instruments.

(e) Income taxes:

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized into earnings except to the extent that it relates to a business combination, or items recognized directly in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable earnings, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

FUTURE CHANGES IN ACCOUNTING POLICIES

New standards and interpretations not yet applied:

IFRS 9 ***- Financial Instruments:***

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard also introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The Company will adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The Company has determined that the adoption of IFRS 9 will have no material impact on the Company. The Company is continuing to evaluate the impact of disclosures to its future consolidated financial statements.

IFRS 15 - *Revenue Recognition:*

On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers.* The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue,* IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services.*

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The Company will adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Company has determined that the adoption of IFRS 15 will have no material impact on the Company. The Company is continuing to evaluate the impact of disclosures to its future consolidated financial statements.

IFRS 16 – *Leases:*

In January 2016, the IASB issued IFRS 16 – Leases, which supersedes IAS 17 – Leases. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single model for lessees to bring leases on-balance sheet while lessor accounting remains largely unchanged and retains the finance and operating lease distinctions. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted, but only if also applying IFRS 15 – Revenue from contracts with Customers. The Company is currently evaluating the impact on IFRS 16 on its financial statements.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, derivative assets, trade and other payables, employee benefit obligations, short term advances, loans, notes payable, deferred consideration, contingent consideration and the Company's earn-out obligation. The fair values of these financial instruments, except the derivative asset, notes payable balances, deferred consideration, and the earn-out obligation, approximate carrying value because of their short-term nature. The earn-out obligation and derivative asset are classified as financial instruments recorded at fair value through earnings. The fair value of the Scotia Facility approximates carrying value as it is a floating rate instrument. The carrying value of the deferred consideration approximates fair value as the discount rate used is reflective of the underlying credit risk of the Company.

Cash and cash equivalents and trade and other receivables are classified as loans and receivables, which are measured at amortized cost. Trade and other payables, employee benefit obligations and short term advances are classified as other financial liabilities, which are measured at amortized cost. Notes payable balances and deferred consideration are also measured at amortized cost. The Company's derivative asset, contingent consideration and earn-out obligation are measured at fair value.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk of financial loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, and trade receivables. The carrying amount of the financial assets represents the maximum credit exposure.

The Company limits its exposure to credit risk on cash and cash equivalents by placing these financial instruments with high-credit quality financial institutions and only investing in liquid, investment grade securities.

The Company has a number of individual customers and no one customer represents a concentration of credit risk.

The carrying amount of trade receivables is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement within operating expenses. When a receivable balance is considered uncollectible it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

No one customer accounts for more than 10% of the Company's consolidated revenue. Credit risk associated with the collection of receivables is considered low. The Company establishes a provision for losses on accounts receivable if it is determined that all or part of the outstanding balance is uncollectable. Collectability is reviewed regularly and an allowance is established or adjusted, as necessary, using a combination of the specific identification method and historic collection patterns.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2017	2016
Cash and cash equivalents	$ 12,486,884	$ 9,507,004
Trade receivables	15,225,553	9,804,920
	$ 27,712,437	$ 19,311,924

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company ensures that there is sufficient liquidity to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash as well as unused credit facilities.

Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates and interest rates, will affect the Company's income or the value of the financial instruments held.

(*i*) Foreign currency risk:

The majority of the Company's sales and purchases are made in U.S. dollars. However, certain of the Company's revenues and expenses are denominated in Canadian dollars. Foreign currency risk reflects the risk that the Company's earnings will be impacted by fluctuations in exchange rates. The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures and the resulting volatility of the Company's earnings. The Company manages this risk by pricing sales in U.S. dollars or the currency of the expenses being incurred. The Company has not entered into any forward foreign exchange contracts as at December 31, 2017. Due to the immaterial nature of the Company's Canadian dollar revenues and expenses, foreign currency risk in this area is considered low. Similarly, foreign currency risk in respect of foreign currency denominated working capital balances is also low due to its limited value and exposure.

Interest rate risk

As at December 31, 2017, the Company's only interest bearing liability is its Scotia Facility. With respect to the Company's Scotia Facility, with all other variables held constant, a 10% point increase in the interest rate would have reduced net income by approximately $164,000 (2016 - $92,000) for the year ended December 31, 2017. There would be an equal and opposite impact on the net income with a 10% point decrease.

LEGAL PROCEEDINGS

The Company is a party to a variety of agreements in the ordinary course of business under which it may be obligated to indemnify third parties with respect to certain matters. These obligations include, but are not limited to contracts entered into with physicians where the Company agrees, under certain circumstances, to indemnify a third party, against losses arising from matters including but not limited to medical malpractice and product liability. The impact of any such future claims, if made, on future financial results is not subject to reasonable estimation because considerable uncertainty exists as to final outcome of these potential claims

NON-IFRS MEASUREMENTS

The following are non-IFRS measures and investors are cautioned not to place undue reliance on them and are urged to read all IFRS accounting disclosures present in the consolidated financial statements and accompanying notes for the consolidated financial statements for the year ended December 31, 2017.

The Company uses certain non-IFRS financial measures as supplemental indicators of its financial and operating performance. These non-IFRS financial measures include adjusted operating EBITDA and adjusted operating expenses. The Company believes these supplementary financial measures reflect the Company's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in its business. These non-IFRS measures do not have any standardized meaning prescribed under IFRS and are therefore unlikely to be comparable to similar measures presented by other companies.

The Company defines adjusted operating EBITDA as operating earnings before interest, taxes, depreciation, amortization, stock based compensation, acquisition related expenses and asset impairment charges. Adjusted operating EBITDA is presented on a basis consistent with the Company's internal management reports. The Company discloses adjusted operating EBITDA to capture the profitability of its business before the impact of items not considered in management's evaluation of operating unit performance.

The Company defines adjusted operating expenses as operating expenses before acquisition related expenses, stock based compensation, depreciation, amortization and asset impairment charges. Adjusted operating expenses are presented on a basis consistent with the Company's internal management reports.

The non-IFRS measures are reconciled to reported IFRS figures in the tables below:

Adjusted operating EBITDA

For the three months ended	2017				2016				2015
(USD in thousands)	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar	Dec
Adjusted operating EBITDA attributable to:									
Shareholders of the Company	11,489	7,775	7,352	7,719	10,281	9,122	7,054	5,914	6,797
Non-controlling interest	5,473	3,119	2,878	3,328	4,219	2,533	1,518	848	465
Total adjusted operating EBITDA	**16,963**	**10,894**	**10,230**	**11,047**	**14,500**	**11,655**	**8,572**	**6,762**	**7,263**
Amortization expense	(7,169)	(5,897)	(5,603)	(5,059)	(4,715)	(4,711)	(2,925)	(2,475)	(2,188)
Depreciation and related expense	(25)	(22)	(20)	(13)	(30)	(31)	(30)	(15)	(18)
Stock based compensation	(799)	(968)	(781)	(906)	(525)	(297)	(290)	(264)	(261)
Acquisition expenses	(97)	(355)	(88)	(127)	(58)	(21)	(286)	(62)	(123)
Impairment of inventory	-	-	-	-	-	-	-	-	-
Impairment of intangible assets	(6,653)	-	-	-	-	-	-	-	-
Operating income	**2,219**	**3,652**	**3,738**	**4,946**	**9,172**	**6,595**	**5,041**	**3,946**	**4,673**
Net finance income (expense)	9,834	400	(3,571)	(1,246)	(1,175)	(1,381)	(2,156)	289	(5,914)
Income tax (expense) recovery	(5,755)	(604)	453	(397)	(1,643)	(188)	(1,219)	(1,205)	1,541
Net and comprehensive income	**6,298**	**3,448**	**620**	**3,302**	**6,354**	**5,026**	**1,666**	**3,030**	**300**

Adjusted operating expenses

For the three months ended	2017				2016				2015
(USD in thousands)	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar	Dec
Anesthesia services - adjusted operating expense	**13,162**	**10,362**	**9,840**	**9,469**	**9,492**	**8,794**	**6,158**	**5,323**	**5,061**
Amortization expense	7,169	5,897	5,603	5,056	4,715	4,711	2,925	2,475	2,188
Depreciation and related expense	3	2	3	2	1	3	2	2	4
Stock based compensation	71	100	106	149	120	38	27	17	12
Acquisition expenses	97	356	87	127	58	21	286	62	123
Impairment of intangible assets	6,653	-	-	-	-	-	-	-	-
Anesthesia services expense	**27,156**	**16,718**	**15,639**	**14,803**	**14,386**	**13,567**	**9,398**	**7,879**	**7,389**
Product sales - adjusted operating expense	**1,295**	**1,094**	**1,142**	**1,037**	**1,083**	**974**	**1,004**	**998**	**950**
Amortization expense	1	1	1	5	-	-	-	-	-
Depreciation and related expense	16	14	12	8	15	15	15	1	1
Stock based compensation	95	90	76	110	125	90	99	84	81
Impairment of inventory	-	-	-	-	-	-	-	-	-
Product sales expense	**1,408**	**1,199**	**1,231**	**1,160**	**1,223**	**1,079**	**1,118**	**1,083**	**1,031**
Corporate - adjusted operating expenses	**882**	**994**	**844**	**985**	**746**	**684**	**853**	**754**	**664**
Amortization expense	-	-	-	(4)	-	-	-	-	-
Depreciation and related expense	6	6	5	3	14	14	13	13	14
Stock based compensation	633	777	599	647	280	169	164	162	167
Corporate expense	**1,521**	**1,776**	**1,448**	**1,630**	**1,040**	**867**	**1,030**	**929**	**845**
Total adjusted operating expense	**15,340**	**12,451**	**11,825**	**11,491**	**11,321**	**10,453**	**8,015**	**7,075**	**6,675**
Total operating expense	**30,084**	**19,693**	**18,317**	**17,593**	**16,649**	**15,514**	**11,546**	**9,891**	**9,265**

Consolidated Financial Statements
(Expressed in United States dollars)

CRH MEDICAL CORPORATION

Years ended December 31, 2017 and 2016

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of CRH Medical Corporation are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and where appropriate, reflect management's best estimates and assumptions based upon information available at the time that these estimates and assumptions were made.

Management is responsible for establishing and maintaining a system of internal controls over financial reporting designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors exercises this responsibility principally through the Audit Committee. The Audit Committee consists of directors not involved in the daily operations of the Company. The Audit Committee is responsible for engaging the external auditor, and meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.

The Company's external auditors, who are appointed by the shareholders, conducted an independent audit in accordance with Canadian generally accepted auditing standards and express their opinion thereon.

Chief Executive Officer
(signed) "Edward Wright"

March 2, 2018

Chief Financial Officer
(signed) "Richard Bear"

March 2, 2018

KPMG LLP
Chartered Professional Accountants
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Vancouver BC V7Y 1K3
Canada

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of CRH Medical Corporation

We have audited the accompanying consolidated financial statements of CRH Medical Corporation, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016, the consolidated statements of operations and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of CRH Medical Corporation as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

Chartered Professional Accountants
March 2, 2018
Vancouver, Canada

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KPMG Canada provides services to KPMG LLP.

CRH MEDICAL CORPORATION

Consolidated Balance Sheets
(Expressed in United States dollars)

As at December 31, 2017 and 2016

	Notes		2017		2016
Assets					
Current assets:					
Cash and cash equivalents		$	12,486,884	$	9,507,004
Trade and other receivables	8		15,486,312		9,836,739
Current tax assets			-		1,551,140
Prepaid expenses and deposits			889,882		550,811
Inventories			423,445		300,760
			29,286,523		21,746,454
Non-current assets:					
Property and equipment	10		364,366		324,198
Intangible assets	11		163,092,606		133,667,311
Derivative asset	12		-		1,261,298
Deferred tax assets	16		5,707,383		6,539,621
			169,164,355		141,792,428
Total assets		$	198,450,878	$	163,538,882
Liabilities					
Current liabilities:					
Trade and other payables	9	$	5,661,844	$	3,229,685
Employee benefits			500,754		226,874
Current tax liabilities			577,553		2,067,671
Notes payable and bank indebtedness	13		1,101,468		5,791,787
Deferred consideration	4		906,956		773,134
Loan			435,000		-
			9,183,575		12,089,151
Non-current liabilities:					
Deferred consideration	4		2,226,737		3,133,694
Notes payable and bank indebtedness	13		60,228,851		38,138,774
Earn-out obligation	19		1,875,427		13,149,130
Deferred tax liabilities	16		-		101,846
			64,331,015		54,523,444
Equity					
Share capital	15		53,925,537		52,706,484
Contributed surplus			8,390,026		7,142,964
Accumulated other comprehensive income loss			(66,772)		(66,772)
Retained earnings			5,410,181		733,155
Total equity attributable to shareholders of the Company			67,658,972		60,515,831
Non-controlling interest			57,277,316		36,410,456
Total equity			124,936,288		96,926,287
Total liabilities and equity		$	198,450,878	$	163,538,882

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

(signed) "Edward Wright" Director
Edward Wright

(signed) "Anthony Holler" Director
Anthony Holler

CRH MEDICAL CORPORATION

Consolidated Statements of Operations and Comprehensive Income
(Expressed in United States dollars, except for number of shares)

Years ended December 31, 2017 and 2016

	Notes		2017		2016
Revenue:					
Anesthesia services	22	$	88,741,075	$	67,821,879
Product sales	22		11,501,005		10,532,753
			100,242,080		78,354,632
Expenses:					
Anesthesia services expense	5		74,315,424		45,229,986
Product sales expense	6		4,997,550		4,503,110
Corporate expense	7		6,375,110		3,866,696
			85,688,084		53,599,792
Operating income			14,553,996		24,754,840
Finance income	18		(11,747,441)		(1,007,673)
Finance expense	18		6,330,812		5,431,035
			(5,416,629)		4,423,362
Income before tax			19,970,625		20,331,478
Income tax expense	16		6,302,507		4,255,150
Net and comprehensive income		$	13,668,118	$	16,076,328
Attributable to:					
Shareholders of the Company		$	6,558,966	$	10,564,233
Non-controlling interest			7,109,152		5,512,095
		$	13,668,118	$	16,076,328
Earnings per share attributable to shareholders					
Basic	15(f)	$	0.089	$	0.147
Diluted	15(f)	$	0.087	$	0.142
Weighted average shares outstanding:					
Basic			73,712,670		71,826,884
Diluted			75,486,210		74,203,830

See accompanying notes to consolidated financial statements.

CRH MEDICAL CORPORATION

Consolidated Statements of Changes in Equity
(Expressed in United States dollars, except for number of shares)

For the years ended December 31, 2017 and 2016

	Number of shares		Share capital		Contributed surplus		Accumulated other comprehensive loss		Retained earnings (deficit)		Non-controlling interest		Total equity
Balance as at January 1, 2016	71,206,547	$	51,066,044	$	6,556,951	$	(66,772)	$	(9,831,078)	$	9,249,220	$	56,974,365
Total net and comprehensive income for the year	-		-		-		-		10,564,233		5,512,095		16,076,328
Transactions with owners, recorded directly in equity:													
Stock-based compensation expense	-		-		1,376,674		-		-		-		1,376,674
Common shares purchased on exercise of options	1,358,687		1,044,077		(457,389)		-		-		-		586,688
Common shares issued on vesting of share units	80,000		229,378		(229,378)		-		-		-		-
Exercise of broker warrants (note 15)	100,705		366,985		(103,894)		-		-		-		263,091
Distributions to members	-		-		-		-		-		(5,685,181)		(5,685,181)
Acquisition of non-controlling interest (note 4)	-		-		-		-		-		27,334,322		27,334,322
Balance as at December 31, 2016	72,745,939	$	52,706,484	$	7,142,964	$	(66,772)	$	733,155	$	36,410,456	$	96,926,287
Total net and comprehensive income for the year	-		-		-		-		6,558,966		7,109,152		13,668,118
Transactions with owners, recorded directly in equity:													
Stock based compensation expense	-		-		3,454,011		-		-		-		3,454,011
Common shares purchased on exercise of options	247,500		208,125		(147,730)		-		-		-		60,395
Common shares issued on vesting of share units	1,292,549		1,992,198		(2,059,219)		-		-		-		(67,021)
Common shares repurchased in connection with normal course issuer bid and cancelled (note 15(e))	(1,267,400)		(928,244)		-		-		(1,780,244)		-		(2,708,488)
Common shares repurchased in connection with normal course issuer bid and held as treasury shares (72,400 treasury shares) (note 15(e))	-		(53,026)		-		-		(101,696)		-		(154,722)
Distributions to members	-		-		-		-		-		(12,899,353)		(12,899,353)
Acquisition of non-controlling interest (note 4)	-		-		-		-		-		26,657,061		26,657,061
Balance as at December 31, 2017	73,018,588	$	53,925,537	$	8,390,026	$	(66,772)	$	5,410,181	$	57,277,316	$	124,936,288

See accompanying notes to consolidated financial statements.

CRH MEDICAL CORPORATION

Consolidated Statements of Cash Flows
(Expressed in United States dollars)

For the years ended December 31, 2017 and 2016

	Notes	2017	2016
Cash provided by (used in)			
Operating activities:			
Net income		$ 13,668,118	$ 16,076,328
Adjustments for:			
Depreciation of property, equipment and intangibles		23,805,145	14,932,118
Impairment of intangible asset	11	6,653,015	-
Stock-based compensation	15	3,454,011	1,376,674
Unrealized foreign exchange		73,735	(1,104,700)
Finance (income) expense	18	(5,504,713)	5,431,035
Income tax expense	16	6,302,507	4,255,150
Operating activity before changes in operating assets and liabilities		48,451,818	40,966,605
Taxes paid		(5,509,915)	(5,466,601)
Change in trade and other receivables		(5,649,573)	(2,745,190)
Change in prepaid expenses		(339,071)	(66,016)
Change in inventories		(122,685)	(45,836)
Change in trade and other payables		2,432,159	195,322
Change in employee benefits		273,880	84,298
Cash provided by operating activities		39,536,613	32,922,582
Financing activities			
Proceeds from loans	4	566,819	-
Repayment of loans	4	(131,819)	(266,994)
Payment of interest on notes payable and bank indebtedness	13	(3,563,837)	(3,135,765)
Repayment of notes payable and bank indebtedness	13	(52,543,750)	(14,000,000)
Payment of financing fees	13	(445,598)	(579,460)
Proceeds on bank indebtedness	13	68,200,000	26,000,000
Payment of deferred consideration		(900,000)	-
Distributions to non-controlling interest		(12,899,353)	(5,685,180)
Proceeds on settlement of derivative asset		1,313,874	-
Proceeds from the exercise of broker warrants		-	263,091
Proceeds from the issuance of shares relating to stock-based compensation		(6,626)	586,688
Repurchase of shares for cancellation	15(e)	(2,863,210)	-
Cash (used in) provided by financing activities		(3,273,500)	3,182,380
Investing activities			
Acquisition of property and equipment		(125,285)	(113,196)
Acquisition of anesthesia services providers	4	(33,153,268)	(30,062,239)
Cash used in investing activities		(33,278,553)	(30,175,435)
Effects of foreign exchange on cash and cash equivalents		(4,680)	5,133
Increase in cash and cash equivalents		2,979,880	5,934,660
Cash and cash equivalents, beginning of year		9,507,004	3,572,344
Cash and cash equivalents, end of year		$ 12,486,884	$ 9,507,004

See accompanying notes to consolidated financial statements.

1. Reporting entity:

CRH Medical Corporation ("CRH" or "the Company") was incorporated on April 21, 2001 and is incorporated under the Business Corporations Act (British Columbia). The Company provides anesthesiology services to gastroenterologists in the United States through its subsidiaries and also specializes in the treatment of hemorrhoids utilizing its treatment protocol and patented proprietary technology.

CRH principally operates in the United States and is headquartered from its registered offices located at Unit 578, 999 Canada Place, Vancouver, British Columbia, Canada.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorized for issue by the Board of Directors on March 2, 2018.

(b) Basis of measurement:

The Company's consolidated financial statements have been prepared on a going concern and historical cost basis except for certain financial instruments which are recorded at fair value.

(c) Functional and presentation currency:

These consolidated financial statements are presented in United States dollars, which is the Company's presentation currency. The functional currency of the Company's parent company and subsidiaries is the United States dollar.

2. Basis of preparation (continued):

(d) Use of estimates, assumptions and judgments:

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Reported amounts and note disclosures reflect the overall economic conditions that are most likely to occur and anticipated measures management intends to take. Actual results could differ from those estimates.

(*i*) Use of estimates and assumptions:

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

Significant areas requiring the use of management estimates relate to the assessment for impairment and useful lives of intangible assets, determining the fair value of share units, estimates supporting reported anesthesia revenues, the recoverability of trade receivables, the valuation of certain long term liabilities and other assets, including liabilities relating to contingent consideration, the vesting term for share units with market and non-market based performance targets, the valuation of acquired intangibles, the valuation of deferred tax assets and the allocation of purchase consideration to the fair value of assets acquired and liabilities assumed.

Information relating to these estimates and how they are determined may be found in notes 4, 12, 13, 15 and 19.

(*ii*) Judgments:

Significant judgments made by management in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements includes the determination of functional currency and the accounting classification of financial instruments. In conjunction with the Company's business acquisitions, these judgments also include the Company's determination of control for the purposes of consolidation and the Company's definition of a business.

Information relating to significant judgment areas may be found in notes 2, 4 and 12.

3. Significant accounting policies:

The accounting policies have been applied consistently by the subsidiaries of the Company.

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has power over an investee, when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control.

(b) Cash equivalents:

The Company considers all highly liquid investments with an original maturity of 90 days or less, when acquired, to be cash equivalents, which are carried at amortized cost and are classified as loans and receivables.

(c) Foreign currency:

Transactions in foreign currencies are translated to the respective functional currencies of the subsidiaries of the Company at exchange rates at the dates of the transactions.

Period end balances of monetary assets and liabilities in foreign currency are translated to the respective functional currencies using period end foreign currency rates. Foreign currency gains and losses arising from settlement of foreign currency transactions are recognized in earnings. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date on which the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(d) Revenue recognition:

Revenue from product sales and anesthesia services in the normal course of activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and contractual adjustments. The Company recognizes revenue from product sales at the time the product is shipped, which is when title passes to the customer, and when all significant contractual obligations have been satisfied, collection is probable and the amount of revenue can be estimated reliably. Revenue from the performance of anesthesia services is measured at the fair value of the consideration received or receivable, net of contractual allowances and other discounts. The Company recognizes net patient revenue at the time the anesthesia services are performed; this aligns with when all significant contractual obligations related to the anesthesia services have been satisfied, collection is probable and the amount of revenue can be estimated reliably. Provisions for contractual allowances and discounts are recognized on an accrual basis. These amounts are deducted from gross service revenue to determine net service revenue.

3. Significant accounting policies (continued):

(e) Employee benefits:

Salaries and short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under cash bonus plans if the Company has a legal or constructive obligation to pay an amount as a result of services rendered by an employee and the obligation can be estimated reliably.

(f) Inventories:

Inventories are measured at the lower of cost, determined using the first-in first-out method, and net realizable value. Inventory costs include the purchase price and other costs directly related to the acquisition of inventory, and bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the Company's ordinary course of business, less the estimated costs of completion and selling expenses.

(g) Property and equipment:

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Where the costs of certain components of an item of property and equipment are significant in relation to the total cost of the item and have different useful lives, they are accounted for and depreciated separately.

The estimated useful lives and the methods of depreciation for the current and comparative periods are as follows:

Asset	Basis	Rate
Computer equipment	Declining balance	30%
Computer software	Declining balance	100%
Furniture and equipment	Declining balance	20%
Leasehold improvements	Straight-line	Shorter of initial lease term or useful life
Injection mold	Straight-line	5 years

These depreciation methods most closely reflect the expected pattern of consumption of the future economic benefits embodied in the asset.

Estimates for depreciation methods, useful lives and residual values are reviewed at each reporting period-end and adjusted if appropriate.

3. Significant accounting policies (continued):

(h) Intangible assets:

Intangible assets, consisting of acquired exclusive professional service agreements to provide anesthesia services and the cost of acquiring patents, are recorded at historical cost. For patents, costs also include legal costs involved in expanding the countries in which the patents are recognized to the extent expected cash flows from those countries exceed these costs over the amortization period and costs related to new patents. The amortization term for professional services agreements are based on the contractual terms of the agreements. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives and are measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets with finite lives are amortized over the following periods:

Asset	Basis	Rate
Intellectual property rights to the CRH O'Regan System	Straight-line	15 years
Intellectual property new technology	Straight-line	20 years
Exclusive professional services agreements	Straight-line	2.5 to 15 years

(i) Financial instruments:

Financial assets and financial liabilities are initially measured at fair value and are subsequently measured based on their classification as described below. Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or liability, other than financial assets and liabilities classified at fair value through earnings, are added or deducted from the fair value of the respective financial asset or financial liability on initial recognition. Transaction costs that are directly attributable to the acquisition of a financial asset or financial liability classified at fair value through earnings are recognized immediately in earnings.

Financing fees related to debt are recorded as a reduction to the debt balance and amortized to finance expense using the effective interest rate method.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

The Company's financial instruments are classified into the following categories: at fair value through earnings, loans and receivables, available-for-sale financial assets and other financial liabilities. The classification depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

The Company has classified cash and cash equivalents, trade and other receivables as loans and receivables. Loans and receivables are initially measured at fair value and are subsequently re-measured at amortized cost using the effective interest method, less any impairment losses.

3. Significant accounting policies (continued):

(i) Financial instruments (continued):

Financial assets at fair value through earnings are financial assets that are held for trading and include derivative instruments that are not included in a qualifying hedging relationship. Financial assets classified as financial assets at fair value through earnings are initially measured at fair value with any gains or losses arising on re-measurement recognized in earnings.

Financial liabilities classified at fair value through earnings are financial liabilities that are held for trading or designated into this category at inception. Financial liabilities classified as financial liabilities at fair value through earnings include contingent consideration and are initially measured at fair value with any gains or losses arising on re-measurement recognized through earnings. The Company has classified its earn-out obligation as financial liabilities at fair value through earnings.

Other financial liabilities includes trade payables, other payables, note payables and bank indebtedness and are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method.

The Company has classified trade and other payables, employee benefit obligations, short term advances, loans, notes payable and bank indebtedness as other financial liabilities.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the other categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented within equity. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to earnings. The Company has no instruments classified as available-for-sale.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred, and the Company has transferred substantially all of the risks and rewards of ownership.

3. Significant accounting policies (continued):

(j) Impairment:

Financial assets:

Financial assets not carried at fair value through earnings are assessed at each reporting date to determine whether there is objective evidence that they are impaired. The Company considers that a financial asset is impaired if objective evidence indicates that a loss event which negatively affected the estimated future cash flows has occurred after initial recognition of the asset.

An impairment test is performed, on an individual basis, for each material financial asset. Other individually non-material financial assets are tested as groups of financial assets with similar risk characteristics. Impairment losses are recognized in earnings.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in earnings and reflected in an allowance account against the respective financial asset. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through earnings.

A permanent impairment loss for an available-for-sale investment is recognized by transferring the cumulative loss previously recognized in other comprehensive income to earnings.

Non-financial assets:

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

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows from other assets or groups of assets (cash-generating unit). Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An asset’s carrying amount, increased through reversal of an impairment loss, must not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Significant accounting policies (continued):

(k) Income taxes:

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized into earnings except to the extent that it relates to a business combination, or items recognized directly in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable earnings, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities but are intended to be settled on a net basis or the tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Share-based compensation:

The Company records share-based compensation related to stock options and share units granted using the fair value based method estimated using either the Black-Scholes model or Binomial method. Under this method, compensation cost is measured at fair value at the date of grant and expensed as employee benefits over the period in which employees unconditionally become entitled to the award. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

(m) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares, stock options and share options are recognized as a deduction from equity, net of any tax effects.

3. Significant accounting policies (continued):

(n) Earnings per share:

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the net income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held, if applicable. Diluted EPS is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held if applicable, for the effects of all dilutive potential common shares.

(o) Provisions:

Provisions are recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of resources will be required to settle the obligation. Provisions are determined by discounting expected future cash outflows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Management uses judgment to estimate the amount, timing and probability of the liability based on facts known at the reporting date. The unwinding of the discount is recognized as a finance expense.

(p) Segment reporting:

The Company's operating segments consist of the sale of medical products and the provision of anesthesia services.

(q) Finance costs:

Finance cost is primarily comprised of interest on the Company's notes payable and bank indebtedness and also includes the amortization of costs incurred to obtain loan financing and any fees in respect of arranging loan financing. Deferred finance costs are amortized using the effective interest method over the term of the related loan financing. Deferred finance costs are presented as a reduction to the related liability.

Foreign exchange gains and losses are reported on a net basis as either finance income or finance expense as the finance costs relate to Canadian dollar denominated debt.

3. Significant accounting policies (continued):

(r) Business combinations:

Business combinations are accounted for using the acquisition method. The consideration for an acquisition is measured at the fair values of the assets transferred, the liabilities assumed and the equity interests issued at the acquisition date. The excess of the consideration over the fair value of the identifiable net assets acquired is recorded as goodwill. Transaction costs that are incurred in connection with a business combination, other than costs associated with the issuance of debt or equity securities, are expensed as incurred. On an acquisition-by-acquisition basis, any non-controlling interest is measured either at fair value of the non-controlling interest or at the fair value of the proportionate share of the net assets acquired.

Contingent consideration is measured at fair value on acquisition date and is included as part of the consideration transferred. The fair value of the contingent consideration liability is re-measured at each reporting date with the corresponding gain or loss being recognized in earnings.

(s) Adoption of new accounting standards:

The Company has not early adopted any amendment, standard or interpretation that has been issued by the IASB but is not yet effective. The Company has adopted the disclosure requirements in Disclosure Initiative (Amendments to IAS 7), which came into effect on January 1, 2017. Consequently, the Company has provided additional disclosure in relation to the changes in borrowings arising from financing activities for the year ended December 31, 2017 (see note 9). Adoption of this standard had no significant impact on the Company's consolidated financial statements. Amendments, standards and interpretations that are issued but not yet effective are described in note 3(t).

(t) New standards and interpretations not yet applied:

(i) IFRS 9 - *Financial Instruments:*

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard also introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

3. Significant accounting policies (continued):

(t) New standards and interpretations not yet applied:

(i) IFRS 9 - *Financial Instruments:*

IFRS 9 (2014) aligns hedge accounting more closely with risk management. This does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The Company will adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The Company has evaluated the impact of IFRS 9 and has determined that IFRS 9 will not have a significant impact on the Company. The Company is continuing to evaluate the impact of disclosures to its future consolidated financial statements.

(iv) IFRS 15 - *Revenue Recognition:*

On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers.* The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue,* IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services.*

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other standards. The Company will adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Company has evaluated the impact of IFRS 15 and has determined that IFRS 15 will not have a significant impact on the Company other than additional required disclosures. The Company is continuing to evaluate the impact of disclosures to its future consolidated financial statements.

3. Significant accounting policies (continued):

(t) New standards and interpretations not yet applied:

(v) IFRS 16 – *Leases*:

In January 2016, the IASB issued IFRS 16 – Leases, which supersedes IAS 17 – Leases. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single model for lessees to bring leases on-balance sheet while lessor accounting remains largely unchanged and retains the finance and operating lease distinctions. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted, but only if also applying IFRS 15 – Revenue from contracts with Customers. The Company is currently evaluating the impact on IFRS 16 on its financial statements.

4. Business combinations:

During the year ended December 31, 2017, the Company completed six business combinations. All business combinations completed during the period have been included in the anesthesia segment of the Company and include the following:

Acquired Operation	Date Acquired	Consideration
DDAB, LLC ("DDAB")	February 2017	$5,273,570
Osceola Gastroenterology Anesthesia Associates, LLC ("OGAA")	March 2017	$3,401,819
West Florida Anesthesia Associates, LLC ("WFAA")	August 2017	$5,840,000
Central Colorado Anesthesia Associates, LLC ("CCAA")	September 2017	$7,888,919
Raleigh Sedation Associates, LLC & Blue Ridge Sedation Associates, PLLC ("RSA")	September 2017	$7,248,960
Alamo Sedation Associates, LLC ("ASA")	September 2017	$3,500,000

The results of operations of the acquired businesses have been included in the Company's consolidated financial statements from the date of acquisition.

The following table summarizes the fair value of the consideration transferred and the preliminary estimated fair values of the assets and liabilities acquired at the acquisition date. Certain of the estimates of fair value, most notably the professional services agreements, are preliminary and may be subject to further adjustments.

	DDAB	OGAA	WFAA	CCAA	RSA	ASA	Total
Cash	$ 4,089,791	$ 3,401,819	$ 5,840,000	$ 7,888,919	$ 7,248,960	$ 3,500,000	$ 31,969,489
Contingent consideration	1,183,779	-	-	-	-	-	1,183,779
Purchase consideration	$ 5,273,570	$ 3,401,819	$ 5,840,000	$ 7,888,919	$ 7,248,960	$ 3,500,000	33,153,268
Non-controlling interest	5,066,763	2,267,879	4,778,182	7,579,550	6,964,687	-	26,657,061
	$ 10,340,333	$ 5,669,698	$ 10,618,182	$ 15,468,469	$ 14,213,647	$ 3,500,000	$ 59,810,329
Assets and liabilities acquired:							
Exclusive professional services agreements	10,340,333	$ 5,669,698	$ 10,606,192	$ 15,468,469	$ 14,213,648	$ 3,500,000	$ 59,798,340
Pre-close trade receivables	525,000	-	-	-	-	-	525,000
Pre-close trade payables	(525,000)	-	-	-	-	-	(525,000)
Prepaid expenses and deposits	-	-	11,889	-	-	-	11,889
Fair value of net identifiable assets and liabilities acquired	$ 10,340,333	$ 5,669,698	$ 10,618,081	$ 15,468,469	$ 14,213,648	$ 3,500,000	$ 59,810,229
Exclusive professional services agreements – amortization term	4.5 years	5 years	15 years	7 years	5 years	7 years	
Acquisition costs expensed							$ 570,900

The value of the acquired intangible assets, being exclusive professional services agreements, have been determined on a provisional basis and relates to the acquisition of exclusive professional services agreements to provide professional anesthesia services. The amortization terms for the agreements are based upon contractual terms within the acquisition agreements and professional services agreements.

4. Business combinations (continued):

DDAB

In February 2017, a subsidiary of the Company entered into a membership interest purchase agreement to acquire 51% of the ownership interest in DDAB, LLC ("DDAB"), an anesthesia services provider in Georgia. The estimated purchase price under the agreement was $4,089,791 and was paid via cash. The purchase price was adjusted seven months following the acquisition date for actual cash collections in the months up to purchase. Contingent consideration of $1,183,779 was paid in the third quarter of 2017 with respect to the purchase price adjustment. As part of the transaction, the Company also entered into an operating agreement between it and the non-controlling interest shareholders of DDAB which governs the operation of the acquired business. As a result of the 51% ownership interest acquired and the operating agreement, the Company has acquired control of DDAB and, as a result, 100% of the financial results of DDAB have been included in the Company's consolidated financial statements from the date of acquisition, being February 1, 2017. The non-controlling interest of $5,066,763 was determined based on 49% of the fair value of DDAB's net identifiable assets as estimated by the Company.

In conjunction with the acquisition, the non-controlling interest shareholder of DDAB provided a working capital advance to DDAB totaling $71,819 at March 31, 2017. The working capital advance was repaid as of December 31, 2017.

OGAA

In March 2017, a subsidiary of the Company entered into a membership interest purchase agreement to acquire 60% of the ownership interest in Osceola Gastroenterology Anesthesia Associates, LLC ("OGAA"), an anesthesia services provider in Florida. The total purchase price under the agreement was $3,401,819 and was paid via cash. As part of the transaction, the Company also entered into an operating agreement between it and the non-controlling interest shareholders of OGAA which governs the operation of the acquired entity. As a result of the 60% ownership interest acquired and the operating agreement, the Company has acquired control of OGAA and, as a result, 100% of the financial results of OGAA have been included in the Company's consolidated financial statements from the date of acquisition, being March 15, 2017. The non-controlling interest of $2,267,879 was determined based on 40% of the fair value of OGAA's net identifiable assets as estimated by the Company.

In conjunction with the acquisition, both the Company and the non-controlling interest shareholder contributed loans of $90,000 and $60,000, respectively. The loans were repaid as of December 31, 2017.

4. Business combinations (continued):

WFAA

In August 2017, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire 55% of the ownership interest in West Florida Anesthesia Associates, LLC ("WFAA"), an anesthesia services provider in Florida. The total purchase price under the agreement was $5,840,000 and was paid via cash. As part of the transaction, the Company also entered into an operating agreement between it and the non-controlling interest shareholders of WFAA which governs the operation of the acquired entity. As a result of the 55% ownership interest acquired and the operating agreement, the Company has acquired control of WFAA and, as a result, 100% of the financial results of WFAA have been included in the Company's consolidated financial statements from the date of acquisition, being August 1, 2017. The non-controlling interest of $4,778,182 was determined based on 45% of the fair value of WFAA's net identifiable assets as estimated by the Company.

In conjunction with the acquisition, both the Company and the non-controlling interest shareholder contributed loans of $82,500 and $67,500, respectively. The terms of the loans are such that they will be repaid first, prior to any future distributions and are non-interest bearing.

CCAA

In September 2017, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire 51% of the ownership interest in Central Colorado Anesthesia Associates, LLC ("CCAA"), an anesthesia services provider in Colorado. The total purchase price under the agreement was $7,888,919 and was paid via cash. As part of the transaction, the Company also entered into an operating agreement between it and the non-controlling interest shareholders of CCAA which governs the operation of the acquired entity. As a result of the 51% ownership interest acquired and the operating agreement, the Company has acquired control of CCAA and, as a result, 100% of the financial results of CCAA have been included in the Company's consolidated financial statements from the date of acquisition, being September 11, 2017. The non-controlling interest of $7,579,550 was determined based on 49% of the fair value of CCAA's net identifiable assets as estimated by the Company.

In conjunction with the acquisition, both the Company and the non-controlling interest shareholder contributed loans of $178,500 and $171,500, respectively. The terms of the loans are such that they will be repaid first, prior to any future distributions and are non-interest bearing.

4. Business combinations (continued):

RSA

In September 2017, a subsidiary of the Company entered into an agreement of contribution, merger and sale which resulted in the acquisition of a 51% ownership interest in Raleigh Sedation Associates, LLC (“RSA”) and Blue Ridge Anesthesia Associates, LLC (“BRSA”). Combined, these entities provide anesthesia services in North Carolina. The total purchase price under the agreement was $7,248,960 and was paid via cash. As part of the transaction, the Company also entered into an operating agreement between it and the non-controlling interest shareholders of RSA and BRSA which governs the operation of the acquired entities. As a result of the 51% ownership interest acquired and the operating agreements, the Company has acquired control of RSA and BRSA, and, as a result, 100% of the financial results of these entities have been included in the Company’s consolidated financial statements from the date of acquisition, being September 21, 2017. The non-controlling interest of $6,964,687 was determined based on 49% of the fair value of RSA and BRSA’s net identifiable assets as estimated by the Company.

In conjunction with the acquisition, both the Company and the non-controlling interest shareholder contributed loans of $204,000 and $196,000, respectively. The terms of the loans are such that they will be repaid first, prior to any future distributions and are non-interest bearing.

ASA

In September 2017, a subsidiary of the Company entered into an asset purchase agreement to purchase 100% of certain assets of an anesthesia services provider in the Texas. The total purchase price under the asset purchase agreement was $3,500,000 and was paid via cash. The Company has obtained control over the business through its contractual ability to direct the relevant activities of the assets acquired. The results of the operation of these assets has been included in the Company’s consolidated financial statements from the date of acquisition, being September 28, 2017.

In the year ended December 31, 2017, the above noted acquisitions contributed revenue and net earnings before tax as follows:

	Year ended December 31, 2017						
	DDAB	OGAA	WFAA	CCAA	RSA	ASA	Total
Revenue	$ 3,244,190	$ 1,829,591	$ 1,315,951	$ 3,963,932	$ 3,196,268	$ 724,216	$ 14,274,148
Net earnings (loss) before tax	$ (414,599)	$ (92,803)	$ 504,231	$ 2,101,049	$ 1,358,055	$ 290,830	$ 3,746,763
Amortization	$ 2,106,364	$ 897,702	$ 294,616	$ 669,780	$ 781,751	$ 127,778	$ 4,877,991

4. Business combinations (continued):

The following unaudited supplemental pro forma financial information presents information as if the acquisitions had been completed on January 1, 2017. The pro forma financial information presented below (unaudited) is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions had taken place at the beginning of fiscal 2017. The pro forma financial information (unaudited) presented includes amortization charges for acquired intangible assets based on the values assigned in the purchase price allocation. Were the acquisitions completed on January 1, 2017, revenue for the Company would have been approximately $120.6 million and net income before tax would have been approximately $29.1 million.

	Year ended December 31, 2017						
Pro Forma Information (unaudited)							
	DDAB	OGAA	WFAA	CCAA	RSA	ASA	Total
Revenue	$ 3,539,116	$ 2,311,062	$ 3,158,282	$ 12,178,353	$ 10,801,852	$ 2,605,406	$ 34,594,071
Net earnings (loss) before tax	$ (452,290)	$ (117,225)	$ 1,210,154	$ 6,670,023	$ 4,589,574	$ 1,046,277	$ 12,946,513
Amortization	$ 2,297,852	$ 1,133,940	$ 707,079	$ 2,209,781	$ 2,842,729	$ 500,000	$ 9,691,381

During the year ended December 31, 2016, the Company completed three business combinations. All business combinations completed during the year have been included in the anesthesia segment of the Company and include the following:

Acquired Operation	Date Acquired	Consideration
Austin Gastroenterology Anesthesia Associates, PLLC ("AGAA")	May 2016	$16,821,896
Community Anesthesia, PLLC ("Community")	June 2016	$13,636,639
Arapahoe Gastroenterology Anesthesia Associates, LLC ("Arapahoe")	June 2016	$ 3,700,000

The results of operations of the acquired businesses have been included in the Company's consolidated financial statements from the date of acquisition.

4. Business combinations (continued):

The following table summarizes the fair value of the consideration transferred and the preliminary estimated fair values of the assets and liabilities acquired at the acquisition date. Certain of the estimates of fair value, most notably the professional services agreements, are preliminary and may be subject to further adjustments.

	Austin	Community	Arapahoe	Total
Cash	$ 13,000,000	$ 13,636,639	$ 3,700,000	$ 30,336,639
Deferred consideration	3,821,895	-	-	3,821,895
Purchase consideration	16,821,895	13,636,639	3,700,000	34,158,534
Non-controlling interest	16,162,214	7,342,806	3,554,902	27,059,922
	$ 32,984,109	$ 20,979,445	$ 7,254,902	$ 61,218,456
Assets and liabilities acquired:				
Exclusive professional services agreements	32,984,109	20,979,445	$ 7,254,902	$ 61,218,456
Pre-close trade receivables	-	917,998	-	917,998
Pre-close trade payables	-	(917,998)	-	(917,998)
Fair value of net identifiable assets and liabilities acquired	$ 32,984,109	$ 20,979,445	$ 7,254,902	$ 61,218,456
Exclusive professional services agreements – amortization term	10 years	5 years	5 years	
Acquisition costs expensed in relation to above acquisitions				$ 348,251

The value of the acquired intangible assets, being exclusive professional services agreements, have been determined on a provisional basis and relates to the acquisition of exclusive professional services agreements to provide professional anesthesia services. As at the acquisition dates, the exclusive professional services agreements had various terms and after the initial term renew annually unless notice of termination is received. The amortization terms for the agreements are based upon contractual terms within the acquisition agreements.

4. Business combinations (continued):

AGAA

In May 2016, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire 51% of the ownership interest in Austin Gastroenterology Anesthesia Associates, PLLC ("AGAA"), an anesthesia services provider in Texas. The total purchase price under the asset contribution and exchange agreement was $17,200,000 and was paid via a combination of cash ($13,000,000) and deferred cash consideration ($4,200,000). The deferred consideration is payable annually over a period of four years. At the date of acquisition, the deferred consideration was discounted to its fair value ($3,821,895) using a discount rate consistent with the Company's underlying credit risk at the time of the transaction. This resulted in total consideration of $16,821,895 for this transaction. As part of the transaction, the Company also entered into an operating agreement between it and the non-controlling interest shareholders of AGAA which governs the operation of AGAA. As a result of the 51% ownership interest acquired and the operating agreement, the Company has acquired control of AGAA and, as a result, 100% of the financial results of AGAA have been included in the Company's consolidated financial statements from the date of acquisition, being May 31, 2016. The non-controlling interest of $16,162,214 was determined based on 49% of the fair value of AGAA's net identifiable assets as estimated by the Company. The deferred consideration has been presented as $773,134 as a current liability and $3,133,693 as a long-term liability in the balance sheet.

In conjunction with the acquisition, both the Company and the non-controlling interest shareholder contributed additional member contributions of $285,600 and $274,400, respectively.

Community

In June 2016, a subsidiary of the Company entered into an membership interest purchase agreement to acquire 65% of the ownership interest in Community Anesthesia, PLLC ("Community"), an anesthesia services provider in Massachusetts. The total purchase price under the asset contribution and exchange agreement was $13,636,639 and was paid via cash. As part of the transaction, the Company also entered into an operating agreement between it and the non-controlling interest shareholders of Community which governs the operation of the acquired business. As a result of the 65% ownership interest acquired and the operating agreement, the Company has acquired control of Community and, as a result, 100% of the financial results of Community have been included in the Company's consolidated financial statements from the date of acquisition, being June 15, 2016. The non-controlling interest of $7,342,806 was determined based on 35% of the fair value of Community's net identifiable assets as estimated by the Company.

In conjunction with the acquisition, the non-controlling interest shareholder of Community provided a working capital advance to Community totaling $100,000 at September 30, 2016. This working capital advance was repaid at December 31, 2016.

4. Business combinations (continued):

Arapahoe

In June 2016, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire 51% of the ownership interest in Arapahoe Gastroenterology Anesthesia Associates, LLC (“Arapahoe”), an anesthesia services provider in Colorado. The total purchase price under the asset contribution and exchange agreement was $3,700,000 and was paid via cash. As part of the transaction, the Company also entered into an operating agreement between it and the non-controlling interest shareholders of Arapahoe which governs the operation of the acquired entity. As a result of the 51% ownership interest acquired and the operating agreement, the Company has acquired control of Arapahoe and, as a result, 100% of the financial results of Arapahoe have been included in the Company’s consolidated financial statements from the date of acquisition, being June 30, 2016. The non-controlling interest of $3,554,902 was determined based on 49% of the fair value of Arapahoe’s net identifiable assets as estimated by the Company.

In conjunction with the acquisition, both the Company and the non-controlling interest shareholder contributed loans of $107,100 and $102,900, respectively. These loans were repaid as at December 31, 2016.

In the year ended December 31, 2016, the above noted acquisitions contributed revenue and net earnings before tax as follows:

	Year ended December 31, 2016			
	AGAA	Community	Arapahoe	Total
Revenue	$ 11,593,180	$ 4,482,059	$ 2,492,127	$ 18,567,366
Net earnings (loss) before tax	$ 5,643,814	$ (348,740)	$ 971,899	$ 6,266,973
Amortization	$ 1,924,073	$ 2,272,773	$ 725,490	$ 4,922,336

The following unaudited supplemental pro forma financial information presents information as if the acquisitions had been completed on January 1, 2016. The pro forma financial information presented below (unaudited) is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions had taken place at the beginning of fiscal 2016. The pro forma financial information (unaudited) presented includes amortization charges for acquired intangible assets based on the values assigned in the purchase price allocation. Were the acquisitions completed on January 1, 2016, revenue for the Company would have been approximately $90.8 million and net income before tax would have been approximately $24.3 million.

	Year ended December 31, 2016			
Pro Forma Information (unaudited)				
	AGAA	Community	Arapahoe	Total
Revenue	$ 18,573,853	$ 7,733,243	$ 4,658,181	$ 30,965,277
Net earnings before tax	$ 9,042,159	$ (601,708)	$ 1,816,634	$ 10,257,085
Amortization	$ 3,298,411	$ 4,195,889	$ 1,450,980	$ 8,945,280

5. Anesthesia services expense:

For the years ended December 31:

	2017	2016
Employee related	$ 29,032,414	$ 19,092,648
Depreciation and amortization	23,732,757	14,834,481
Bad debt expense	5,235,934	3,932,374
Office related	6,778,232	5,344,226
Impairment of professional services contract (note 11)	6,653,015	-
Acquisition expense	668,317	426,694
Medical supplies	677,905	690,551
Stock based compensation	426,416	201,538
Travel and entertainment	318,787	154,778
Professional fees	503,485	443,234
Insurance	288,162	108,637
Corporate	-	825
	$ 74,315,424	$ 45,229,986

6. Product sales expense:

For the years ended December 31:

	2017	2016
Employee related	$ 1,629,851	$ 1,427,602
Product cost and support	2,207,057	2,031,707
Professional fees	418,385	279,013
Office related	298,672	253,672
Stock based compensation	372,223	398,388
Insurance	14,749	54,326
Depreciation and amortization	56,907	44,863
Foreign exchange	(294)	13,539
	$ 4,997,550	$ 4,503,110

7. Corporate expense:

For the years ended December 31:

	2017	2016
Employee related	$ 1,439,041	$ 1,376,208
Professional fees	947,572	533,467
Corporate	493,918	437,563
Stock based compensation	2,655,372	776,748
Travel and entertainment	224,074	248,719
Office related	233,053	180,737
Insurance	310,736	244,610
Depreciation	15,481	52,772
Foreign exchange	55,863	15,872
	$ 6,375,110	$ 3,866,696

8. Trade and other receivables:

	2017	2016
Trade receivables (note 19(a))	$ 15,225,553	$ 9,804,920
Other receivables	260,759	31,819
	$ 15,486,312	$ 9,836,739

9. Trade and other payables:

	2017	2016
Trade payables	$ 2,042,487	$ 372,612
Payments due to former owners of business combinations	76,403	58,667
Accruals and other payables	3,542,954	2,798,406
	$ 5,661,844	$ 3,229,685

10. Property and equipment:

		Computer equipment and software		Furniture and equipment		Leasehold improvements		Injection mold		Total
Cost										
Balance as at January 1, 2016	$	43,312	$	116,195	$	4,727	$	311,273	$	475,507
Additions		16,016		1,805		-		95,375		113,196
Dispositions		(3,629)		-		-		-		(3,629)
Balance as at December 31, 2016		55,699		118,000		4,727		406,648		585,074
Additions		26,356		97,021		1,057		1,414		125,848
Dispositions		-		-		-		-		-
Balance as at December 31, 2017	$	82,055	$	215,021	$	5,784	$	408,062	$	710,922

		Computer equipment and software		Furniture and equipment		Leasehold improvements		Injection mold		Total
Accumulated depreciation										
Balance as at January 1, 2016	$	22,162	$	39,130	$	2,594	$	126,915	$	190,801
Depreciation expense		7,950		19,893		426		42,369		70,638
Dispositions		(563)		-		-		-		(563)
Balance as at December 31, 2016		29,549		59,023		3,020		169,284		260,876
Depreciation expense		13,408		24,074		465		47,732		85,680
Dispositions		-		-		-		-		-
Balance as at December 31, 2017	$	42,957	$	83,097	$	3,485	$	217,016	$	346,556

		Computer equipment and software		Furniture and equipment		Leasehold improvements		Injection mold		Total
Net book value										
December 31, 2017	$	39,098	$	131,924	$	2,299	$	191,046	$	364,366
December 31, 2016	$	26,150	$	58,977	$	1,707	$	237,364	$	324,198

11. Intangible assets:

		Professional Services Agreements		Patents		Total
Cost						
Balance as at January 1, 2016	$	94,416,692	$	532,598	$	94,949,290
Additions through business combinations (note 4)		61,218,456		-		61,218,456
Balance as at December 31, 2016		155,635,148		532,598		156,167,746
Additions through business combinations (note 4)		59,798,340		-		59,798,340
Impairment		(6,653,015)		-		(6,653,015)
Balance as at December 31, 2017	$	208,780,473	$	532,598	$	209,313,071

		Professional Services Agreements		Patents		Total
Accumulated depreciation						
Balance as at January 1, 2016	$	7,175,823	$	466,200	$	7,642,023
Amortization expense		14,823,948		34,464		14,858,412
Balance as at December 31, 2016		21,999,771		500,664		22,500,435
Amortization expense		23,723,277		(3,247)		23,720,030
Balance as at December 31, 2017	$	45,723,048	$	497,417	$	46,220,465

		Professional Services Agreements		Patents		Total
Net book value						
December 31, 2017	$	163,057,425	$	35,181	$	163,092,606
December 31, 2016	$	133,635,377	$	31,934	$	133,667,311

At each reporting period, the company evaluates cash generating units for impairment of the related professional services agreements. At December 31, 2017, the Company identified impairment triggers in the Gastroenterology Anesthesia Associates LLC (“GAA”) and Community Anesthesia LLC (“Community”) cash generating units.

The aggregate carrying amounts of intangible assets allocated to each entity, prior to impairment charges, are as follows:

		2017		2016
GAA	$	49,013,454	$	54,510,290
Community		14,510,783		18,706,671
	$	63,524,237	$	73,216,961

The impairment tests performed for the above entities were based on their value in use and were determined by discounting the estimated future cash flows generated from the continuing use of these units.

11. Intangible assets (continued):

The calculation of value in use was made on the following key assumptions:

- Cash flows were projected based on past experience, using actual operating results and planned results for the near term. Terminal value calculations for each cash generating unit were extrapolated using a constant growth rate equal to the long-term average growth rate in the United States;
- Management applied internally determined discount rates in determining the recoverable amount for these cash generating units. Risk free discount rates were used and risks specific to the assets were factored into the cash flows.

The key assumptions used in performing the impairment tests in 2017 were:

Cash generating unit	Valuation method	Discount rate	Perpetual growth rate
GAA	Value in use	18.0%	1.4%
Community	Value in use	20.50%	1.3%

The net present value of the expected cash flows was compared to the carrying value of the professional services agreements relating to the cash generating units at year end. Based on management's analysis, the Company recorded an impairment of the professional services agreement relating to the GAA cash generating unit of $6,653,015. No impairment of the professional services agreement relating to the Community cash generating unit was identified.

At December 31, 2016, there were no indications of impairment identified in respect of these entities and therefore, an estimate of recoverable amount was not completed.

12. Derivative asset:

On January 21, 2016, the Company entered into a cross currency swap with the Bank of Nova Scotia ("Scotia") to lock in the Canadian dollar to U.S. dollar foreign exchange rate on its Canadian dollar denominated Crown Note (note 13) at 1.448. Under the cross currency swap, Scotia was committed to payments on the principal amount of the Crown Note of CAD$22,500,000 at a rate of 12% while the Company was committed to payments on the principal amount of the Crown Note of $15,538,674 at 13.17%.

The Company accounted for the cross currency swap as a derivative financial instrument at fair value through profit or loss and recorded the fair value of the instrument on the balance sheet with changes in the fair value of the instrument recorded through earnings in the period (note 19). In conjunction with the extinguishment of the Crown Note (note 13), the cross currency swap was settled. The Company received a payment of $1,313,874 as a result of settlement of the cross currency swap on June 26, 2017.

13. Notes payable:

December 31, 2017		Crown Note	Scotia Facility		Total
Current portion	$	-	1,101,468	$	1,101,468
Non-current portion		-	60,228,851		60,228,851
Total loans and borrowings	$	-	61,330,319	$	61,330,319

December 31, 2016		Crown Note	Scotia Facility		Total
Current portion	$	-	5,791,787	$	5,791,787
Non-current portion		15,208,256	22,930,518		38,138,774
Total loans and borrowings	$	15,208,256	28,722,305	$	43,930,561

Crown Capital Fund III Management Inc. ("Crown Note")

On December 1, 2014, the Company entered into an agreement to borrow funds in the form of a subordinated note payable from Crown Capital Fund III Management Inc. At inception, the original amount of the note payable was CAD$22,500,000 (USD$19,863,000). The note bore interest at 12% per annum with a decrease to 10% upon repayment and performance in full of the Company's obligations under its senior credit agreement (see Scotia Facility). Interest on the note was payable on a quarterly basis beginning March 31, 2015, with the payment of the principal scheduled for June 1, 2018. In compensation for its services, the Company paid Crown a combination of cash CAD$1,350,000 (USD$1,191,780) and shares (2,000,000 common shares) in addition to reimbursement of legal costs in relation to issuance of the note. The Crown note was subordinate to the Scotia Facility. The note was classified as an other financial liability and recorded at amortized cost.

In conjunction with an increase to the Scotia Facility in June 2017, noted below, the Company repaid in full the principal owing on the Crown Note of CAD$22,500,000 ($17,043,750), with related interest, prepayment penalties and other extinguishment costs of CAD$1,568,384 ($1,188,051). As a result of the extinguishment of the Crown Note, the Company recorded finance expense of $1,789,882 representing the difference between the carrying value of the loan at extinguishment and the consideration transferred to extinguish its financial obligations under the Crown Note.

The reconciliation of movements in borrowings to cash flows arising from financing activities are as follows:

		2017		**2016**
Drawings at January 1	$	16,758,000	$	16,256,250
Additions to note		-		-
Repayments of note		(17,043,750)		-
Effects of changes in foreign exchange rates		285,750		501,750
Drawings at December 31	$	-	$	16,758,000

13. Notes payable (continued):

The Bank of Nova Scotia ("Scotia Facility")
On November 24, 2015, the Company entered into a credit facility with the Bank of Nova Scotia. The facility, which had a maturity date of April 30, 2018, provided financing of up to $55,000,000, after amendment on June 15, 2016. In conjunction with the 2016 amendment, the Company paid $390,400 in fees to the Bank of Nova Scotia and legal counsel.

On June 26, 2017, the Company amended the Scotia Facility to provide financing of up to $100,000,000 via a revolving and term facility. The amended facility has a maturity date of June 26, 2020. In conjunction with this amendment, the Company incurred fees of $445,598 As at December 31, 2017, the Company had drawn $61,700,000 on the amended facility (2016 - $29,000,000). The amendment was determined to be a substantial modification and the Company extinguished the previous Scotia facility and wrote off deferred financing costs related to the previous facility of $173,511. The Facility is repayable in full at maturity, with scheduled principal repayments on a quarterly basis beginning September 30, 2017 based on the initial principal issued under the term facility. The facility bears interest at a floating rate based on the US prime rate, LIBOR or bankers' acceptance rates plus an applicable margin. At December 31, 2017, interest on the facility is calculated at LIBOR plus 2.50% on the revolving portion and term portion of the facility. The Facility is secured by the assets of the Company. As at December 31, 2017 the Company is required to maintain the following financial covenants in respect of the Facility:

Financial Covenant	Required Ratio
Total funded debt ratio	2.50:1.00
Fixed charge coverage ratio	1.15:1.00

The Company is in compliance with all covenants at December 31, 2017.

The consolidated minimum loan payments (principal) for all loan agreements in the future are as follows:

	Minimum Principal
At December 31, 2017	
Not later than one year	$ 1,250,000
Between one to three years	$ 60,450,000
Between four to five years	$ -
Thereafter	$ -
	$ 61,700,000

The reconciliation of movements in borrowings to cash flows arising from financing activities are as follows:

	2017	2016
Drawings at January 1	$ 29,000,000	$ 17,000,000
Additions to long term debt	68,200,000	26,000,000
Repayments of long-term debt	(35,500,000)	(14,000,000)
Drawings at December 31	$ 61,700,000	$ 29,000,000

14. Subsidiary undertakings:

(a) Material subsidiary undertakings

The list below sets out the principal material operating subsidiaries of the Company. These subsidiaries engage in intercompany transactions, all of which are eliminated on consolidation within these financial statements.

Subsidiary	Jurisdiction of Incorporation
CRH Medical Corporation	British Columbia, Canada
CRH Medical Corporation	Delaware, United States
CRH Anesthesia Management LLC	Delaware, United States
Gastroenterology Anesthesia Associates LLC	Georgia, United States
Macon Gastroenterology Anesthesia Associates LLC	Georgia, United States
CRH Anesthesia of Cape Coral LLC	Florida, United States
CRH Anesthesia of Knoxville LLC	Tennessee, United States
Knoxville Gastroenterology Anesthesia Associates LLC	Tennessee, United States
Austin Gastroenterology Anesthesia Associates PLLC	Texas, United States
Community Anesthesia PLLC	Massachusetts, United States
Arapahoe Gastroenterology Anesthesia Associates LLC	Delaware, United States
DDAB LLC	Georgia, United States
Osceola Gastroenterology Anesthesia Associates LLC	Florida, United States
West Florida Anesthesia Associates LLC	Florida, United States
Central Colorado Anesthesia Associates LLC	Colorado, United States
Raleigh Sedation Associates LLC	North Carolina, United States
Blue Ridge Sedation Associates LLC	North Carolina, United States
Alamo Sedation Associates LLC	Texas, United States

14. Subsidiary undertakings (continued):

(b) Material non-wholly owned subsidiary undertakings

The company defines material non-wholly owned subsidiary undertakings as those non-wholly owned subsidiaries which comprise greater than 10% of the revenue and earnings before tax of the consolidated Company. The Company holds controlling interests in Knoxville Gastroenterology Anesthesia Associates LLC (“KGAA”) and Austin Gastroenterology Anesthesia Associates LLC (“AGAA”). These controlling interests comprise the material non-wholly owned subsidiary undertakings of the Company as at December 31, 2017. As a result of the operating agreements with these entities, the Company controls KGAA and AGAA and 100% of the financial results of this subsidiary are included in the Company’s consolidated financial results.

The following tables summarize the financial information of these entities, including fair value adjustments at acquisition but excluding intercompany eliminations, as at December 31, 2017 and 2016.

	KGAA		AGAA	
Ownership %	51%		51%	
	2017	2016	2017	2016
Cash and cash equivalents	$ 1,049,265	$ 1,333,289	$ 1,552,981	$ 2,866,916
Trade and other receivables	665,601	750,393	1,412,034	1,403,277
Prepaids	23,494	-	37,283	10,635
Current taxes receivable	92,427	-		
Intangible assets	8,912,880	10,822,783	27,761,626	31,060,037
	10,743,667	12,906,465	30,763,924	35,340,865
Accounts payable and accrued liabilities	428,358	315,542	709,905	453,759
Current taxes payable	-	133,862	-	-
	428,358	449,404	709,905	453,759
Member contributions	7,106,555	8,149,450	23,037,106	29,244,110
Current period earnings	3,208,754	4,307,611	7,016,913	5,642,996
	10,315,309	12,457,061	30,054,019	34,887,106
Total liabilities and equity	$ 10,743,667	$ 12,906,465	$ 30,763,924	$ 35,340,865

	KGAA		AGAA	
	2017	2016	2017	2016
Anesthesia revenue	$ 10,194,489	$ 10,307,361	$ 15,938,161	$ 11,593,180
Anesthesia services expense	6,577,415	5,573,305	8,926,966	5,949,366
Net income before tax	3,617,074	4,734,056	7,011,195	5,643,814
Tax expense	408,319	426,445	(5,717)	-
Net income	$ 3,208,755	$ 4,307,611	$ 7,016,912	$ 5,643,814
Net income attributable to non-controlling interest	$ 1,589,007	$ 2,123,964	$ 3,438,287	$ 2,765,469
Non-controlling interest	$ 4,981,492	$ 6,216,255	$ 14,726,051	$ 17,094,265

14. Subsidiary undertakings (continued):

(c) The Company also holds the following interests:

Entity	Interest
Community Anesthesia PLLC	65%
Macon Gastroenterology Anesthesia Associates LLC	65%
Arapahoe Gastroenterology Anesthesia Associates LLC	51%
DDAB LLC	51%
Osceola Gastroenterology Anesthesia Associates LLC	60%
West Florida Anesthesia Associates LLC	55%
Central Colorado Anesthesia Associates LLC	51%
Raleigh Sedation Associates LLC	51%

As a result of the operating agreements with each of the above entities, the Company has control over these entities and thus 100% of the financial results of these subsidiaries are included in the Company's consolidated financial results.

The following tables summarize the aggregate financial information for the above entities, including fair value adjustments at acquisition but excluding tax and intercompany eliminations, as at December 31, 2017 and 2016.

	2017	2016
Cash and cash equivalents	$ 5,022,739	$ 1,742,274
Trade and other receivables	7,369,420	2,359,873
Prepaids	118,960	13,821
Intangible assets	75,348,680	30,877,177
	87,859,799	34,993,145
Accounts payable and accrued liabilities	2,657,257	659,482
Loans	900,000	-
	3,557,257	659,482
Member contributions	80,561,493	33,308,961
Current period earnings	3,741,049	1,024,702
	84,302,542	34,333,663
Total liabilities and equity	$ 87,859,799	$ 34,993,145

	2017	2016
Anesthesia revenue	$ 30,503,731	$ 11,044,835
Anesthesia services expense	26,762,683	9,994,210
Net income before tax	$ 3,741,048	$ 1,050,625
Tax expense	-	-
Net income	$ 3,741,048	$ 1,050,625
Net income attributable to non-controlling interest	$ 2,123,477	$ 503,784
Non-controlling interest	$ 37,569,771	$ 13,099,934

15. Share capital:

(a) Authorized:

100,000,000 common shares without par value.

(b) Issued and outstanding – common shares:

Other than in connection with shares issued in respect of the Company's share unit and share option plans and in connection with the Company's normal course issuer bid (note 15(e)), there were no share transactions in the year ended December 31, 2017.

On March 29, 2016, the Company issued 46,851 common shares on the exercise of 46,851 broker warrants issued in connection with the Company's bought deal equity offering on March 25, 2015. Gross proceeds on exercise were $121,095 (CAD$159,293) and the fair value of the instruments exercised was $48,332.

On September 7, 2016, the Company issued 53,854 common shares on the exercise of 53,854 broker warrants issued in connection with the Company's bought deal equity offering on March 25, 2015. Gross proceeds on exercise were $141,996 (CAD$183,104) and the fair value of the instruments exercised was $55,562.

15. Share capital (continued):

(c) Stock option plan:

Under the Company's Stock Option Plan, the Company may grant options to its directors, officers, consultants and eligible employees. The plan provides for the granting of stock options at the fair market value of the Company's stock at the date of grant, and the term of options range from two to ten years. The Board of Directors may, in its sole discretion, determine the time during which options shall vest and the method of vesting. All options under the Plan will be subject to vesting provisions determined by the Board of Directors, over a period of not less than 18 months, in equal portions on a quarterly basis. Options granted to consultants providing investor relations activities will vest at the end of 12 months or longer from the date of issuance.

A summary of the status of the plan as of December 31, 2017 and 2016 is as follows (options are granted in CAD and USD amounts are calculated using prevailing exchange rates):

	Number of options	Weighted average exercise price	
		CAD	USD
Outstanding, January 1, 2016	2,974,311	$ 0.60	$ 0.43
Issued	-	-	-
Exercised	(1,358,687)	0.57	0.42
Forfeited	(12,500)	0.52	0.39
Expired	-	-	-
Outstanding, December 31, 2016	1,603,124	0.63	0.47
Issued	-	-	-
Exercised	(247,500)	0.32	0.25
Forfeited	(10,937)	0.60	0.48
Expired	-	-	-
Outstanding, December 31, 2017	1,344,687	$ 0.69	$ 0.55

The following table summarizes information about the stock options outstanding at December 31, 2017:

Exercise price		Options outstanding				Options exercisable		
$CAD	$USD	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price ($CAD)	Weighted average exercise price ($USD)	Number of options	Weighted average exercise price ($CAD)	Weighted average exercise price ($USD)
0.60 – 0.70	0.48 – 0.56	1,344,687	6.05	0.69	0.55	1,272,812	0.68	0.54

As at December 31, 2016:

Exercise price		Options outstanding				Options exercisable		
$CAD	$USD	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price ($CAD)	Weighted average exercise price ($USD)	Number of options	Weighted average exercise price ($CAD)	Weighted average exercise price ($USD)
0.28 – 0.58	0.20 – 0.43	214,687	0.93	0.28	0.20	214,687	0.28	0.20
0.59 – 0.70	0.44 – 0.52	1,388,437	7.04	0.68	0.51	962,812	0.68	0.51
		1,603,124	6.23	0.63	0.47	1,177,499	0.61	0.45

15. Share capital (continued):

(c) Stock option plan (continued):

For the year ended December 31, 2017, the Company recognized $22,179 (2016 - $97,486), in compensation expense as a result of stock options awarded and vested. Compensation expense is recorded in the consolidated statement of operations and comprehensive income and is allocated to product sales expenses (note 6), corporate expenses (note 7) and anesthesia expenses (note 5) on the same basis as the allocations of cash compensation.

During the years ended December 31, 2017 and 2016, no additional stock options were granted.

(d) Share unit plan:

In June 2017, the shareholders of the Company approved a Share Unit Plan. Employees, directors and eligible consultants of the Company and its designated subsidiaries are eligible to participate in the Share Unit Plan. In accordance with the terms of the plan, the Company will approve those employees, directors and eligible consultants who are entitled to receive share units and the number of share units to be awarded to each participant. Each share unit awarded conditionally entitles the participant to receive one common share of the Company upon attainment of the share unit vesting criteria. The vesting of share units is conditional upon the expiry of time-based vesting conditions or performance-based vesting conditions. Once the share units vest, the participant is entitled to receive the equivalent number of underlying common shares.

15. Share capital (continued):

(d) Share unit plan (continued):

A summary of the status of the plan as of December 31, 2017 and 2016 is as follows:

	Time based share units	Performance based share units
Outstanding, January 1, 2016	509,000	1,000,000
Issued	704,000	1,350,000
Exercised	(80,000)	-
Forfeited	(65,000)	-
Expired	-	-
Outstanding, December 31, 2016	1,068,000	2,350,000
Issued	324,000	-
Exercised	(302,000)	(1,000,000)
Forfeited	(53,500)	-
Expired	-	-
Outstanding, December 31, 2017	1,036,500	1,350,000

During the year ended December 31, 2017, the Company issued 324,000 share units ("Time based share units"). The weighted average fair value per unit was $3.31 (CAD$4.16) based on the market value of the underlying shares at the date of issuance.

During the year ended December 31, 2017, 1,000,000 of those Performance based share units which vest upon the Company meeting certain market based performance targets vested. Upon vesting, the Company issued 1,000,000 common shares. The Company also issued net shares of 292,549 in respect of 302,000 time based share units which vested during the year.

During the year ended December 31, 2016, the Company issued 704,000 share units ("Time based share units"). The weighted average fair value per unit was $5.01 (CAD$6.74) based on the market value of the underlying shares at the date of issuance.

During the year ended December 31, 2016, the Company also issued 250,000 share units ("Performance based share units"). These share units vest upon the Company meeting certain performance targets and expire 10 years after grant. The weighted average fair value of these units at the date of grant was $3.73 (CAD$5.01) per unit. The fair value of these share units was calculated as of the grant date based on the market value of the underlying shares at the date of issuance.

15. Share capital (continued):

(d) Share unit plan (continued):

In addition to the above share units issued in 2016, the Company also issued 1,100,000 share units (“Performance based share units”) which vest upon the Company meeting certain market based performance targets and expire ten years after grant. The weighted average fair value of these units at the date of grant was $4.93 (CAD$6.62) per unit. The fair value of these share units was calculated as of the grant date using a binomial pricing model with the following weighted average assumptions:

	2016
Risk-free interest rate	1.04%
Expected volatility	62.0%
Pre-vest forfeiture rate	0%
Weighted average share price	CAD$7.26

During the year ended December 31, 2017, the Company recognized $3,431,832 (2016 - $1,279,188), in compensation expense in relation to the granting and vesting of share units.

(e) Normal Course Issuer Bid:

On November 6, 2017, the Board of Directors of the Company approved a normal course issuer bid to purchase outstanding shares of the Company. The Company may purchase up to 7,120,185 shares pursuant to the bid, representing no more than 10.0% of the Company’s shares outstanding on October 31, 2017. All purchases of shares under the bid are made pursuant to an Automated Share Purchase Plan. Subject to any block purchases made in accordance with the rules of the TSX, the bid is subject to a daily repurchase maximum of 103,902 shares. Shares are purchased at the market price of the shares at the time of purchase and are purchased on behalf of the Company by a registered investment dealer through the facilities of the TSX or alternative Canadian and US marketplaces.

As of December 31, 2017, the Company repurchased 1,339,800 of its shares for a total cost, including transaction fees, of $2,872,713 (CAD$3,669,120). As at December 31, 2017, 1,267,400 of these shares have been cancelled with the remaining 72,400 shares cancelled on January 5, 2018.

15. Share capital (continued):

(f) Earnings per share:

The calculation of basic earnings per share for the years ended December 31, 2017 and 2016 is as follows:

	2017			2016		
	Net earnings	Weighted average number of common shares outstanding	Per share amount	Net earnings	Weighted average number of common shares outstanding	Per share amount
Net earnings attributable to shareholders:						
Earnings per common share:						
Basic	$ 6,558,966	73,712,670	$ 0.089	$ 10,564,233	71,826,884	$ 0.147
Share options		1,306,309			2,113,563	
Share units		467,231			263,383	
Diluted	$ 6,558,966	75,486,210	$ 0.087	$ 10,564,233	74,203,830	$ 0.142

For the year ended December 31, 2017, 157,952 options (2016 – 315,251) and 2,047,200 share units (2016 – 1,179,073) were excluded from the diluted weighted average number of common shares calculation.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding. The treasury method is used to determine the calculation of dilutive shares.

16. Income taxes:

(a) Income tax expense is comprised of the following:

		2017		2016
Current tax expense	$	5,527,161	$	5,310,454
Deferred tax expense (recovery):				
Origination and reversal of temporary differences		(1,559,332)		(830,584)
Change in enacted tax rates and other		2,334,678		(224,720)
Total tax expense (recovery)	$	6,302,507	$	4,255,150

The reconciliation of income tax computed at statutory tax rates to income tax expense, using a 23% (2016 – 26%) statutory rate, is:

		2017		2016
Tax expense at statutory income tax rates	$	4,593,244	$	5,286,493
Permanent differences		557,406		159,800
Income attributable to non-controlling interest		(1,571,060)		(1,306,217)
Foreign income taxed at different rates		344,742		243,256
Impact of change in tax rates		2,585,691		-
Other		(207,516)		(128,182)
Total tax expense (recovery)	$	6,302,507	$	4,255,150

The Company's statutory tax rate in Canada in 2017 is reduced from 26% to 23% due to the expected benefits to be derived from the IBA patent program in Canada. In 2018, the Canadian statutory tax rate will increase from 26% to 27%. The Company has recorded the impact of the change in tax rate in 2017. As a result of tax legislation enacted in the U.S. at the end of 2017, the federal corporate tax rate applicable to years after 2017 was substantially reduced. As a result, the Company recorded a deferred income tax expense in respect of its U.S. operations in 2017 at a combined federal and state income tax rate of 26.6% (2016 – 39%).

(b) Recognized deferred tax assets and liabilities:

The Company had the following deferred tax assets and liabilities resulting from temporary differences recognized for financial statement and income tax purposes.

		2017		2016
Deferred tax assets:				
Property and equipment	$	8,916		141
Intangible assets		4,291,655		-
Finance related costs		374,721		527,462
Reserves		-		74,105
Share transaction costs		196,508		273,332
Stock-based compensation		387,943		426,051
Deferred consideration		-		1,523,663
Earn-out obligation		499,052		5,128,162
Deferred tax liabilities:				
Intangible assets		-		(1,006,371)
Deferred consideration		(44,255)		-
Reserves		(7,157)		-
Unrealized foreign exchange		-		(508,770)
Net deferred tax asset	$	5,707,383	$	6,437,775

16. Income taxes (continued):

(b) Recognized deferred tax assets and liabilities (continued):

Deferred tax assets by jurisdiction		2017		2016
Canada:				
Deferred tax asset	$	201,555	$	405,108
Deferred tax liability		(99,254)		(506,954)
Net deferred tax asset (liability)	$	102,301	$	(101,846)
United States:				
Deferred tax asset	$	5,690,541	$	7,559,797
Deferred tax liability		(85,459)		(1,020,176)
Net deferred tax asset (liability)	$	5,605,082	$	6,539,621

(c) Unrecognized deferred tax assets and liabilities:

As at December 31, 2017 and 2016, the Company had tax losses of $nil from both its Canadian and US operations.

Realization of the deferred tax assets is dependent on several factors, including a presumption of future profitability, which is subject to uncertainty. The Company has assessed that it is probable that its deferred tax assets will be realized.

17. Capital disclosures:

The Company's objective in managing capital is to safeguard its ability to continue as a going concern and to sustain future development of the business. In the management of capital, the Company includes shareholders' equity, excluding accumulated other comprehensive loss. The Company's objective is met by retaining adequate equity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. In order to maintain or adjust its capital structure, the Company may issue new shares. The Board of Directors does not establish quantitative return on capital criteria for management. The Company is not subject to any externally imposed capital requirements, but is subject to debt covenants in respect of its notes payable and bank indebtedness (note 13). The Company's overall strategy with respect to capital management remains unchanged from the year ended December 31, 2016.

		2017		2016
Shareholders' equity attributable to shareholders, excluding other comprehensive income	$	67,725,744	$	60,582,603

18. Net finance expense

Recognized in earnings in the years ended December 31:

	2017	2016
Finance income:		
Foreign exchange gain	$ -	$ (1,007,673)
Net change in fair value of financial liabilities at fair value through earnings (note 19)	(11,747,441)	-
Total finance income	$ (11,747,441)	$ (1,007,673)
Finance expense:		
Interest and accretion expense on borrowings	$ 3,322,321	$ 4,024,240
Accretion expense on earn-out obligation and deferred consideration	600,602	560,150
Amortization of deferred financing fees	224,463	614,472
Net change in fair value of financial liabilities at fair value through earnings	-	204,958
Foreign exchange loss	88,084	-
Extinguishment of notes payable and bank indebtedness	2,044,867	-
Other	50,475	27,215
Total finance expense	$ 6,330,812	$ 5,431,035
Net finance (income) expense	$ (5,416,629)	$ 4,423,362

19. Financial instruments:

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, derivative assets, trade and other payables, employee benefit obligations, short term advances, loans, notes payable and bank indebtedness, deferred consideration and the Company's earn-out obligation. The fair values of these financial instruments, except the derivative asset, certain of the notes payable balances, the deferred consideration and the earn-out obligation, approximate carrying value because of their short-term nature. The earn-out obligation and derivate asset are classified as financial instruments recorded at fair value through earnings. For all other balances, the fair value of these financial instruments approximates carrying value; the Scotia Facility is a floating rate instrument and due to the subordinate nature of the Crown Note, management has assessed that the carrying value of this fixed rate instrument reflects fair value.

An established fair value hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement. There are three levels of inputs that may be used to measure fair value:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's derivative asset was carried at fair value as disclosed in note 12. The fair value of the derivative asset was determined using models to estimate the present value of expected future cash flows. The derivative asset was considered a Level 2 instrument because, while observable inputs are available, they were not quoted in an active market.

The Company's earn-out obligation is measured at fair value on a recurring basis using significant unobservable inputs (Level 3). The Earn-Out Obligation relates to the GAA acquisition in 2014. The total purchase price under the acquisition included an additional $14,655,000 payable within 4.5 years after closing based on the achievement of certain financial performance targets of GAA. This valuation technique included inputs relating to estimated cash outflows under the arrangement and the use of a discount rate appropriate to the Company. During the year ended December 31, 2017, the Company revised its assumptions underlying the discount rate used in the calculation of the fair value of the earn-out obligation to account for changes in the underlying credit risk of the Company and also adjusted the model based on current expectations of the financial performance of GAA for the remainder of the earn-out period. This was performed in conjunction with the impairment analysis performed on the GAA cash generating unit.

19. Financial instruments (continued):

The downward adjustment of the discount rate from 3.80% at December 31, 2016 to 3.59% at December 31, 2017, in conjunction with adjustments to certain of the cash flow probabilities in the model, resulted in a decrease of $11,747,441 to the fair value of the earn-out obligation. The impact of this adjustment was recorded as finance income.

The fair value measurements are sensitive to the discount rate used in calculating the fair values as well as the probability assessments used. A 1% increase in the discount rate would reduce the fair value of the earn-out obligation by $26,819. During the year ended December 31, 2017, the Company recorded accretion expense of $473,738 in relation to this liability, reflecting the change in fair value of the liabilities that is attributable to credit risk.

Reconciliation of level 3 fair values:

	Earn-out Obligation
Balance as at January 1, 2017	$13,149,130
Recorded in finance expense:	
Accretion expense	473,738
Fair value adjustment	(11,747,441)
Balance as at December 31, 2017	$1,875,427

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk and market risk.

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, and trade receivables. The carrying amount of the financial assets represents the maximum credit exposure.

The Company limits its exposure to credit risk on cash and cash equivalents by placing these financial instruments with high-credit quality financial institutions and only investing in liquid, investment grade securities.

The Company has a number of individual customers and no one customer represents a concentration of credit risk.

The carrying amount of trade receivables is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement within anesthesia services expense and product sales expense. When a receivable balance is considered uncollectible it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

19. Financial instruments (continued):

(a) Credit risk (continued):

No one customer accounts for more than 10% of the Company's consolidated revenue. The Company establishes a provision for losses on accounts receivable if it is determined that all or part of the outstanding balance is uncollectable. Collectability is reviewed regularly and an allowance is established or adjusted, as necessary, using a combination of the specific identification method and historic collection patterns. The following table sets forth details of the age of receivables that are not overdue as well as an analysis of overdue amounts and related allowance for the doubtful accounts.

	2017	2016
Total trade receivables	$ 20,589,210	$ 13,934,290
Less: allowance for doubtful accounts	(5,363,657)	(4,129,370)
Total trade receivables, net	$ 15,225,553	$ 9,804,920
Of which:		
Current	$ 10,065,389	$ 7,781,818
31 to 60 days	3,251,297	1,674,626
61 to 90 days	2,359,768	1,147,918
91 days or greater	4,912,756	3,329,928
Total trade receivables	$ 20,589,210	$ 13,934,290

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2017	2016
Cash and cash equivalents	$ 12,486,884	$ 9,507,004
Trade receivables	15,225,553	9,804,920
	$ 27,712,437	$ 19,311,924
Continuity of allowance for bad debts:		
Beginning balance	$ 4,129,370	$ 2,344,684
Write-offs	(4,065,645)	(2,180,257)
Provision	5,302,732	3,964,943
Other	(2,800)	-
Total allowance for bad debts	$ 5,363,657	$ 4,129,370

19. Financial instruments (continued):

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company ensures that there is sufficient liquidity to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash. The relative maturity in respect of contractual and legal obligations are summarized as follows:

At December 31, 2017		Maturity			
	TOTAL	Less than one year	One to three years	Four to five years	After five years
Trade and other payables	$ 5,661,844	$ 5,661,844	$ -	$ -	$ -
Employee benefits	500,754	500,754	-	-	-
Notes payable and bank indebtedness	68,502,574	4,018,179	64,484,395	-	-
Earn-out obligation	1,977,334	-	1,977,334	-	-
Deferred consideration	3,300,000	1,000,000	2,300,000	-	-
	$ 79,942,506	$ 11,180,777	$ 68,761,729	$ -	$ -

The Company also has financial obligations in respect of its normal course issuer bid. Refer to note 15(e).

At December 31, 2016		Maturity			
	TOTAL	Less than one year	One to three years	Four to five years	After five years
Trade and other payables	$ 3,229,685	$ 3,229,685	$ -	$ -	$ -
Employee benefits	226,874	226,874	-	-	-
Notes payable and bank indebtedness	48,495,668	8,970,825	39,524,843	-	-
Earn-out obligation	14,120,227	-	14,120,227	-	-
Deferred consideration	4,200,000	900,000	3,300,000	-	-
	$ 70,272,454	$ 13,327,384	$ 56,945,070	$ -	$ -

19. Financial instruments (continued):

(c) Market risk:

Market risk is the risk that changes in market prices, such as foreign currency exchange rates and interest rates, will affect the Company's income or the value of the financial instruments held.

(*i*) Foreign currency risk:

The majority of the Company's sales and purchases are made in U.S. dollars. However, certain of the Company's revenues and expenses are denominated in Canadian dollars. Foreign currency risk reflects the risk that the Company's earnings will be impacted by fluctuations in exchange rates. The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures and the resulting volatility of the Company's earnings. The Company manages this risk by pricing sales in U.S. dollars or the currency of the expenses being incurred. The Company has not entered into any forward foreign exchange contracts as at December 31, 2017. Due to the immaterial nature of the Company's Canadian dollar revenues and expenses, foreign currency risk in this area is considered low. Similarly, foreign currency risk in respect of foreign currency denominated working capital balances is also low due to its limited value and exposure.

At December 31, 2016, the Company had a Canadian dollar denominated loan. The Company had entered into a cross currency swap to mitigate foreign currency risk in respect of the loan (note 12). Foreign exchange gains and losses arising from the revaluation of the loan were included in earnings, but offset by gains and losses arising on the cross currency swap derivative contract. As a result, with all other variables held constant, a 10% point increase in the value of the Canadian dollar relative to the U.S. dollar would not have had a material impact on net income.

(*ii*) Interest rate risk:

As at December 31, 2017, the Company's only interest bearing liability is its Scotia Facility. With respect to the Company's Scotia Facility, with all other variables held constant, a 10% point increase in the interest rate would have reduced net income by approximately $164,000 (2016 - $92,000) for the year ended December 31, 2017. There would be an equal and opposite impact on the net income with a 10% point decrease.

20. Commitments and contingencies:

(a) The following are the minimum payments required for the lease of premises:

Less than one year	$	237,299
One to three years		249,677
Four to five years		-
Thereafter		-
Total	$	486,976

Rent expense for the year ended December 31, 2017 was $236,455 (2016 - $132,596).

(b) The Company is a party to a variety of agreements in the ordinary course of business under which it may be obligated to indemnify third parties with respect to certain matters. These obligations include, but are not limited to contracts entered into with physicians where the Company agrees, under certain circumstances, to indemnify a third party, against losses arising from matters including but not limited to medical malpractice and product liability. The impact of any such future claims, if made, on future financial results is not subject to reasonable estimation because considerable uncertainty exists as to final outcome of these potential claims.

21. Related party transactions:

Balances and transactions between the Company and its wholly owned and controlled subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company and other related parties are disclosed below:

(a) Related party transactions:

The Company paid or accrued fees of $194,750 (2016 - $210,100) to Directors of the Company. Additionally, the Company made product sales totaling $39,485 (2016 - $37,277) to one company (2016 - four companies) owned or controlled by one of the Company's Directors (2016 – two of the Company's Directors). The transaction terms with related parties may not be on the same price as those that would result from transactions among non-related parties.

Until June 16, 2016, one of the directors of the Company was an indirect shareholder of KGAA.

(b) Key management personnel compensation, including directors, is as follows:

		2017		2016
Salaries, directors' fees and other benefits	$	1,307,233	$	1,369,329
Share-based payments		2,807,306		801,311
	$	4,114,539	$	2,170,640

(*i*) Share-based payments represent the amount expensed during the year for options granted.

(*ii*) There were no post-employment, termination or other long-term benefits paid during the years ended December 31, 2017 and 2016.

22. Segmented information:

The Company operates in two industry segments: the sale of medical products and the provision of anesthesia services. The revenues relating to geographic segments based on customer location, in United States dollars, for the years ended December 31, 2017 and 2016 are as follows:

		2017		2016
Revenue:				
Canada and other	$	238,342	$	238,049
United States		100,003,738		78,116,583
Total	$	100,242,080	$	78,354,632

The Company's property and equipment, intangibles and other assets are located in the following geographic regions as at December 31, 2017 and 2016:

		2017		2016
Property and equipment:				
Canada	$	347,676	$	316,145
United States		16,690		8,053
Total	$	364,366	$	324,198
Intangible assets:				
Canada	$	35,181	$	31,934
United States		163,057,425		133,635,377
Total	$	163,092,606	$	133,667,311
Other assets:				
Canada	$	-	$	1,261,298
United States		-		-
Total	$	-	$	1,261,298

22. Segmented information (continued):

The financial measures reviewed by the Company's Chief Operating Decision Maker are presented below for the years ended December 31, 2017 and 2016. The Company does not allocate expenses related to corporate activities. These expenses are presented within "Other" to allow for reconciliation to reported measures.

	2017							
		Anesthesia services		Product sales		Other		Total
Revenue	$	88,741,075	$	11,501,005	$	-	$	100,242,080
Operating costs		74,315,424		4,997,550		6,375,110		85,688,084
Operating income (loss)	$	14,425,651	$	6,503,455	$	(6,375,110)	$	14,553,996

	2016							
		Anesthesia services		Product sales		Other		Total
Revenue	$	67,821,879	$	10,532,753	$	-	$	78,354,632
Operating costs		45,229,986		4,503,110		3,866,696		53,599,792
Operating income (loss)	$	22,591,893	$	6,029,643	$	(3,866,696)	$	24,754,840