CRH Medical Corporation

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Three and Six Months Ended June 30, 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 THREE AND SIX MONTHS ENDED JUNE 30, 2017

The following management discussion and analysis (“MD&A”) should be read in conjunction with CRH Medical Corporation’s (the “Company” or “CRH”) unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2017 and 2016 and the annual consolidated financial statements and the corresponding notes thereto for the year ended December 31, 2016. The unaudited condensed consolidated interim 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 August 1, 2017.

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 within the meaning of applicable securities legislation concerning profitability; growth strategies; anticipated trends in our industry; our future financing plans; our anticipated needs for working capital and other events or conditions that may occur in the future. These forward-looking statements may include statements regarding perceived merit of our products and services, budgets, capital expenditures, operating costs, cash flow estimates and similar statements relating to our products, services, timelines, strategic plans, including our plans and expectations relating to the CRH O’Regan System, our anesthesiology operations, or other statements that are not statements of fact. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, identified by words or phrases such as “expects”, “is expected”, “anticipates”, “believes”, “plans”, “projects”, “estimates”, “assumes”, “intends”, “strategy”, “goals”, “objectives”, “potential”, “possible” or variations thereof or stating that certain actions, events, conditions or results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements. Readers are cautioned regarding statements discussing profitability; growth strategies; anticipated trends in our industry; our future financing plans; our anticipated needs for working capital; and other events or conditions that may occur in the future. 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, and assumes no obligation to update them. 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 statements are based on a number of assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors and material assumptions include, among others: our need to raise additional capital to fund future operations; risks related to various restrictive covenants and events of default under the Credit Facilities; risks associated with incurring substantially more debt, which could further exacerbate the risks associated with increased leverage; the risk of ASCs or other customers terminating or choosing not to renew their agreements; the Centers for Medicare & Medicaid Services ("CMS") may review and reduce the reimbursement of anesthesia procedure codes relevant to GI procedures; the risk of a significant number of our affiliated physicians leaving our affiliated ASCs; the ability to enforce the non-competition and other restrictive covenants in our agreements; risks related to changing regulations or regulatory interpretations; the ability to successfully recruit and retain qualified anesthesiologists or other independent contractors; risks related to failure to manage third-party service providers; the continuing development of our products and provision of our services depends upon us maintaining strong relationships with physicians; the ability to successfully identify and complete corporate transactions on favorable terms or achieve anticipated synergies relating to any acquisitions or alliances, which could result in unforeseen operating difficulties and expenditures or require significant management resources and significant charges; our senior management has been key to our growth, and we may be adversely affected if we lose any member of our senior management; the ability to effectively undertake or manage our growth initiatives; risks associated with the failure to manage growth; patient Protection and Affordable Care Act ("ACA") reform in the United States may have an adverse effect on our business, financial conditions, results of operations and cash flows and the trading price of our securities; changing legislative and regulatory requirements and healthcare spending and pricing pressures may adversely affect our business; the policies of health insurance carriers may affect the amount of revenue the Company receives; risks associated with operating in an industry that is subject to extensive federal, state, and local regulation, and changes in law and regulatory interpretations; competition in our industry; unfavorable changes or conditions could occur in the states where our operations are concentrated; changes in federal or state laws, rules, regulations, or interpretations of such federal or state laws, rules or regulations, which may require the Company 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 offenses and potential sanctions; the risk that government authorities or other parties may assert that our business practices violate antitrust laws; risks associated with significant price and volume fluctuations of our common shares; risks related to losing our foreign private issuer status under United States federal securities laws; 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; continuing unfavorable economic conditions could have an adverse effect on our business; changes in the medical industry and the economy may affect the Company's business; 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; health and safety risks in our industry; 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, recalls and other liabilities, which may adversely affect our operations; various risks associated with governmental investigations into marketing and other business practices in our industry; the risk of regulatory investigations, claims, lawsuits, and other proceedings; the risk that we are unable to adequately protect or enforce our intellectual property; the Company's ability to successfully market its products and services; risks related to evolving regulation of corporate governance and public disclosure; risks related to criminal or civil sanctions in connection with a failure to comply with privacy regulations regarding the use and disclosure of patient information; the risk that our employees and third-party contractors may not appropriately record or document services that they provide; write-offs of intangible assets; exposure to adverse movements in foreign currency exchange rates; risks associated with the failure of our employees and business partners to appropriately secure and protect confidential information in their possession; dependence on complex information systems; and, conflicts of interest arising among the Company's officers and directors as a result of their involvement with other companies. This list is not exhaustive of the factors that may affect any of our forward-looking statements. Forward-looking statements are statements about the future and are inherently uncertain, and our actual achievements or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to in this report and elsewhere. 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 ten 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 FINANCIAL INFORMATION

		Q2 2017	YTD 2017		Q2 2016	YTD 2016
Anesthesia services revenue	$	19,267,771	39,030,203	$	13,930,346	25,367,087
Product sales revenue		2,787,678	5,563,993		2,657,195	5,057,305
Total revenue		**22,055,449**	**44,594,196**		**16,587,541**	**30,424,293**
Total operating expenses		**18,317,365**	**35,910,510**		**11,546,429**	**21,437,234**
Operating income		**3,738,084**	**8,683,686**		**5,041,112**	**8,987,158**
Net and comprehensive income	**$**	**619,874**	**3,921,991**	**$**	**1,666,140**	**4,696,624**
Attributable to:						
Shareholders of the Company		(493,631)	1,048,224		1,269,222	4,224,770
Non-controlling interest[1]		1,113,505	2,873,767		396,918	471,854
Earnings (loss) per share attributable to shareholders:						
Basic	$	(0.007)	0.014	$	0.018	0.059
Diluted	$	(0.007)	0.014	$	0.017	0.057
Total assets	$	167,357,032	167,357,032	$	165,669,979	165,669,979
Total non-current liabilities	$	55,493,573	55,493,573	$	62,952,331	62,952,331
Total liabilities	$	64,042,486	64,042,486	$	76,630,065	76,630,065

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

RECENT EVENTS

During the quarter ended June 30, 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. Though the repayment of the Crown note was cash accretive with the Company's interest rate on debt lowered to LIBOR plus 2%, the extinguishment of the Crown note and modification of the Scotia Facility resulted in a one-time finance charge of $2,044,867 in the quarter. This finance charge significantly impacted net and comprehensive income attributable to shareholders in the quarter and six months, with a net and comprehensive loss attributable to shareholders of $493,631 in the three months ended June 30, 2017 and a net and comprehensive income attributable to shareholders of $1,269,222 for the six months ended June 30, 2017.

The increase in the Scotia Facility will aid in facilitating the Company's goal of consolidating the highly fragmented gastroenterology anesthesia provider business. Earlier in the year, the Company acquired two additional gastroenterology anesthesia services providers and most recently, the Company acquired an additional gastroenterology anesthesia services provider in Florida. Additionally, the Company entered into an exclusive agreement to develop and manage a monitored anesthesia care program.

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

On August 1, 2017, a subsidiary of the Company entered into a 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 preliminary estimate of the fair value of the exclusive professional service agreement which was acquired as part of this acquisition is $10,618,181.

CMS 2018 Medicare Physician Fee Schedule Proposed Rule – July 2017

The CMS 2018 Medicare Physician Fee Schedule Proposed Rule was announced on July 13, 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.

The Company has analyzed the impact of the new codes on its business and has determined that if the new codes were implemented today as currently proposed, anesthesia revenue would decrease by approximately 8.5% and total revenue would decrease by approximately 7.5%. In addition, our total adjusted operating EBITDA[1] would decrease by approximately 13.5%. We believe that this would decrease our total adjusted operating EBITDA[1] margin from 53% to approximately 47%.

[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.

As a result of this potential decrease in revenues and adjusted operating EBITDA[1], the Company has performed impairment testing over its exclusive professional services agreements; no impairment was identified as of June 30, 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 analysis.

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 $501,565. As at June 30, 2017, the Company had drawn $42,700,000 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.

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 $891,118. The preliminary estimate of the fair value of the exclusive professional service agreement which was acquired as part of this acquisition is $9,766,488.

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 preliminary estimate of 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.

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

		Q2 2017	YTD 2017		Q2 2016	YTD 2016
Anesthesia services revenue	$	19,267,771	39,030,203	$	13,930,346	25,367,087
Product sales revenue		2,787,678	5,563,993		2,657,195	5,057,305
Total revenue		**22,055,449**	**44,594,196**		**16,587,541**	**30,424,392**
Adjusted operating expenses[1]						
Anesthesia services		9,839,546	19,308,970		6,158,205	11,481,050
Product sales		1,141,976	2,178,954		1,003,886	2,002,120
Corporate		843,890	1,828,425		853,273	1,606,824
Total Adjusted operating expenses[1]	**$**	**11,825,412**	**23,316,349**	**$**	**8,015,364**	**15,089,994**
Adjusted operating EBITDA[2] – non-controlling interest[3]		2,877,903	6,206,406		1,518,502	2,366,945
Adjusted operating EBITDA[2] - shareholders of the Company		**7,352,134**	**15,071,441**		**7,053,675**	**12,967,453**
Adjusted operating EBITDA[2] - total	**$**	**10,230,037**	**21,277,847**	**$**	**8,572,177**	**15,334,398**
Adjusted Operating EBITDA[2] per share attributable to shareholders:						
Basic	$	0.099	0.205	$	0.099	0.182
Diluted	$	0.097	0.199	$	0.095	0.175

[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 and six months ended June 30, 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 quarter ended June 30, 2017 were $22,055,449 compared to $16,587,541 for the quarter ended June 30, 2016. The increase is mainly attributable to revenue contributions from the anesthesia businesses acquired by the Company in the second quarter of 2016 in addition to the acquisitions completed in February and March of 2017. Revenues for the six months ended June 30, 2017 were $44,594,196, an increase of $14,169,804 when compared to the six months ended June 30, 2016.

Revenues from anesthesia services for the quarter ended June 30, 2017 were $19,267,771 compared to $13,930,346 for the second quarter of 2016. The increase was due to the Company's anesthesia acquisitions throughout 2016 and 2017. The Company expects revenue from anesthesia services to continue to increase through organic growth in patient cases and deployment of available capital for future acquisitions. Anesthesia revenues for the six months ended June 30, 2017 were $39,030,203 compared to $25,367,087 for the six months ended June 30, 2016.

During the three and six months ended June 30, 2017, there were the following factors that impacted revenue which also impacted operating income and adjusted operating EBITDA when compared to both the previous year and previous quarter:

- As a result of the annual process that insured individuals and companies go through when renewing their health insurance policies, our commercial payor mix may change each year. Changes in payor mix could have a positive or negative impact on revenues. Recent payor mix changes from entities acquired prior to 2016, primarily GAA, resulted in a decrease in average payor revenue per case of 18% compared to the second quarter of 2016 and average revenue per case decreased by 13% for the six months ended June 30, 2017. The decline in average revenue per case was partially offset by an increase in patient cases of 6% for the second quarter of 2017 and 5% for the year to date. These changes reduced anesthesia revenue for entities acquired prior to 2016 by 13% for the three months ending June 30, 2017 and by 9% for the six months ending June 30, 2017. The payor mix changes primarily relate to a single payor at GAA. Any future payor mix changes related to this payor are expected to not be material;

- Estimates are required in the determination of anesthesia services revenue. Each quarter we review our estimated revenue assumptions and make changes in estimates as required based on actual revenue collected. In the first quarter of 2017, our revenues, operating income and adjusted operating EBITDA were positively impacted by changes in revenue estimates totaling approximately $900,000. The majority of the change in estimates occurred in our partially owned joint venture businesses. In the second quarter of 2017, we had a small negative adjustment of $200,000 related to changes in revenue estimates; this relatively small adjustment is reflective of the Company's stable platform of entities and our growing experience in estimating revenue rates per unit. This change in revenue estimates is a factor causing anesthesia services revenue to decline when comparing the first quarter of 2017 to the second quarter of 2017; and

- For the three and six months ending June 30, 2017 our newly acquired entities, DDAB and OGAA contributed $1,369,550 and $2,043,686 respectively to total anesthesia revenue.

In the quarter ended June 30, 2017, the anesthesia services segment serviced 46,188 patient cases compared to 29,336 patient cases during the quarter ended June 30, 2016. Year to date patient cases total 88,551 compared to 53,776 cases in the six months ended June 30, 2016.

The tables below summarizes our approximate payor mix as a percentage of patient cases for the three and six months ended June 30, 2017 and 2016.

	Three months ended		Six months ended	
Payor	**June 30, 2017**	**June 30, 2016**	**June 30, 2017**	**June 30, 2016**
Medicare and other government programs	29.9%	31.7%	29.5%	32.3%
Medicaid	3.5%	2.9%	3.6%	3.3%
Commercial and other	66.6%	65.4%	66.9%	64.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The payor mix for the three and six months ended June 30, 2017 includes acquisitions completed during the second quarter of 2016 and as a result is not directly comparable to the three and six months ended June 30, 2016.

Due to the inherent nature of commercial health insurance plans and patient deductibles, the anesthesia business is impacted by the seasonality of patient cases. Seasonality by quarter for 2016 is presented below and is reflective of 2017 seasonality expectations.

Seasonality	**Q1**	**Q2**	**Q3**	**Q4**
2016	22.5%	24.0%	25.5%	28.0%

After considering the expected decrease in revenues as a result of the CMS proposed rule beginning January 1, 2018, the Company expects anesthesia services revenue to continue to increase primarily through acquisitions and through organic growth of previously acquired businesses as the U.S. government continues to encourage colonoscopy as a means of improving healthcare for its citizens, as well as reducing overall cost via early diagnosis and treatment of colon cancer. Seasonality is driven by both patient cases and seasonal payor mix. As a result, revenue per patient will fluctuate quarterly.

Revenues from product sales for the quarter ended June 30, 2017 were $2,787,678 compared to $2,657,195 for the second quarter of 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 six months ended June 30, 2017 were $5,563,993 compared to $5,057,305 for the six months ended June 30, 2016. As of June 30, 2017, the Company has trained 2,653 physicians to use the O’Regan System, representing 985 clinical practices. This compares to 2,290 physicians trained, representing 870 clinical practices, as of June 30, 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.

Total adjusted operating expenses

For the three months ended June 30, 2017, total adjusted operating expenses were $11,825,412 compared to $8,015,364 for the quarter ended June 30, 2016. For the six months ended June 30, 2017, total adjusted operating expenses were $23,316,349 compared to $15,089,994 for the six months ended June 30, 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 quarter ended June 30, 2017 were $9,839,456, compared to $6,158,205 for the three months ended June 30, 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 ten further acquisitions completed in 2015, 2016 and in the six months ended June 30, 2017. As a result, the second quarter of 2017 is not directly comparable to 2016, with the majority of the increase relating to operating expenses for acquired companies. 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. Anesthesia services adjusted operating expenses for the six months ended June 30, 2017 were $19,308,970 compared to $11,481,050 for the six months ended June 30, 2016. Similar to the second quarter of 2017, the first half of 2017 is not comparable to the first half of 2016 due to the timing of acquisitions.

Product sales adjusted operating expenses for the quarter ended June 30, 2017 were $1,141,976 compared to $1,003,886 for the quarter ended June 30, 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 six months ended June 30, 2017 were $2,178,954 compared to $2,002,120 for the six months ended June 30, 2016.

Corporate adjusted operating expenses for the quarter ended June 30, 2017 were consistent with the second quarter of 2016 at $843,890. Corporate adjusted operating expenses for the six months ended June 30, 2017 were $1,828,425 compared to $1,606,824 for the six months ended June 30, 2016. The increase in corporate adjusted operating expenses from 2016 is primarily due to higher professional fees and employee related costs, and, in general, is reflective of the increasing complexity of our business which is increasing our compliance costs.

Operating Income

Operating income for the quarter ended June 30, 2017 was $3,738,084 compared to $5,041,112 for the same period in 2016. Contributing to the decrease in operating income for the quarter is an increase in total adjusted operating EBITDA of $1,657,860, less incremental costs related to the amortization of acquired professional service agreements relating to acquisitions completed in 2016 and 2017 of $2,677,406, an increase in stock based compensation expense of $491,287 and a reduction in acquisition expenses of $198,375. Fluctuations in revenue will not necessarily result in correlating fluctuations in operating expenses due to the fixed nature of these costs.

Operating income for the six months ended June 30, 2017 was $8,683,686 compared to $8,987,161 for the six months ended June 30, 2016. Contributing to the decrease in operating income for the quarter is an increase in total adjusted operating EBITDA of $5,943,449, less incremental costs related to the amortization of acquired professional service agreements relating to acquisitions completed in 2016 and 2017 of $5,257,979, an increase in stock based compensation expense of $1,133,927 and a reduction in acquisition expenses of $133,344.

Anesthesia operating income for the quarter ended June 30, 2017 was $3,629,159, a decrease of $902,924 from the same period in 2016. This decrease is primarily reflective of the incremental costs related to the amortization of acquired professional service agreements relating to acquisitions completed in 2016 and 2017, offset by additional operating EBITDA in the quarter. Anesthesia operating income for the six months ended June 30, 2017 was $8,588,320 compared to $8,090,192 for the six months ended June 30, 2016.

Product operating income for the quarter ended June 30, 2017 was $1,557,029, an increase of $17,623 from the same period in 2016. The increase is primarily a result of the increased revenue in the quarter ended June 30, 2017, offset by increases in employee related expenses and professional fees. Product operating income for the six months ended June 30, 2017 was $3,173,385 compared to $2,856,775 for the six months ended June 30, 2016.

Adjusted operating EBITDA

Adjusted operating EBITDA attributable to shareholders of the Company for the quarter ended June 30, 2017 was $7,352,134, an increase of $298,459 from the quarter ended June 30, 2016. The increase in adjusted operating EBITDA attributable to shareholders is primarily a reflection of the adjusted operating EBITDA contribution from the Company's anesthesia services providers acquired in 2016 and most recently in 2017. Adjusted operating EBITDA attributable to shareholders of the Company for the six months ended June 30, 2017 was $15,071,441, an increase of $2,103,988 from the same period in 2016.

Adjusted operating EBITDA attributable to non-controlling interest was $2,877,903 for the quarter ended June 30, 2017. This comprises the non-controlling interests' share of revenues of $5,253,972 and adjusted operating expenses of $2,376,069. Adjusted operating EBITDA attributable to non-controlling interest was $6,206,406 for the six months ended June 30, 2017. This comprises the non-controlling interests' share of revenues of $10,828,342 and adjusted operating expenses of $4,621,936.

Total adjusted operating EBITDA was $10,230,037 for the quarter ended June 30, 2017, an increase of $1,657,860 from the same period in 2016. Total adjusted operating EBITDA was $21,277,847 for the six months ended June 30, 2017, an increase of $5,943,449 from the same period in 2016.

Net finance (income) / expense

As a result of the Company's debt facilities, the Company has recorded net finance expense of $3,570,947 for the quarter ended June 30, 2017, compared to finance expense of $2,155,698 for the quarter ended June 30, 2016. The Company recorded net finance expense of $4,817,163 for the six months ended June 30, 2017, compared to net finance expense of $1,866,383 for the six months ended June 30, 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 is 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 during the quarter.

Cash interest paid in the quarter ended June 30, 2017 was $872,923 compared to $685,664 in the quarter ended June 30, 2016. Additionally, the Company paid prepayment penalties and other cash extinguishment costs of $700,553; these costs are related to the extinguishment of the Crown debt. Cash interest paid in the six months ended June 30, 2017 was $1,702,757, compared to cash interest of $1,368,800. At June 30, 2017, the Company owed $42.7 million under the amended Scotia Facility as compared to $39.75 million owed at June 30, 2016. The Company anticipates that, in future, cash interest will be less than costs incurred historically due to the extinguishment of the Crown debt and due to the new credit facility.

In the quarter ended June 30, 2017, the Company recorded an exchange loss of $177,722 in relation to the Crown note and the cross currency swap, compared to an exchange loss of $515,070 recorded in the second quarter of 2016. Excluding the impact of the exchange loss in the period and the finance expense recorded as a result of extinguishing the Crown debt and modifying the Scotia facility, the finance expense for the quarter ended June 30, 2017 was $1,348,358 compared to $1,640,628 recorded in the same period in 2016. Finance expense, excluding fair value adjustments, exchange losses and extinguishment losses, was $1,319,158, compared to $1,515,873 for the quarter ended June 30, 2016. The fair value adjustment recorded in the quarter ($29,200) resulted from changes in estimates underlying the Company's earn-out obligation.

In the six months ended June 30, 2017, after excluding the impact of foreign exchange and debt extinguishment costs, finance expense of $2,684,212 was consistent with the finance expense of $2,869,157 recorded in the same period in 2016. Finance expense, excluding fair value adjustments, exchange losses and extinguishment losses, was $2,640,149, compared to $2,565,298 for the six months ended June 30, 2016.

Income tax expense

For the quarter ended June 30, 2017, the Company recorded an income tax recovery of $452,737 compared to income tax expense of $1,219,274 for the quarter ended June 30, 2016. The recovery experienced in the second quarter of 2017 is a reflection of the distribution of the taxable income between Canada and the US and the overall lower income attributable to shareholders in the quarter. Income tax expense relates only to income attributable to the Company's shareholders. The Company recorded an income tax recovery of $55,468 in the six months ended June 30, 2017 compared to $2,424,151 recorded in the six months ended June 30, 2016. Throughout 2016, the effective tax rate in respect of this income was 28%. We expect our tax rate to fluctuate quarterly due to the impact of seasonality in our business.

Net and comprehensive income

For the quarter ended June 30, 2017, the Company recorded a net and comprehensive loss attributable to shareholders of the Company of $493,631 compared to net and comprehensive income attributable to shareholders of $1,269,222 for the quarter ended June 30, 2016. The decrease quarter over quarter is largely a reflection of increased finance costs and stock based compensation in the second quarter of 2017 as compared to the second quarter of 2016. In the second quarter of 2017, the Company's net finance expense was $3,570,947 compared to a net finance expense of $2,155,698 in the second quarter of 2016. Additionally, the Company experienced additional stock based compensation costs of $491,287 compared to the second quarter of 2016. These costs are 100% allocable to shareholders and thus have decreased the portion of net income attributable to shareholders when compared to the second quarter of 2016. Excluding the impact of the additional finance costs and stock based compensation incurred in the period, net and comprehensive income would be $1,412,905 for the three months ended June 30, 2017.

For the six months ended June 30, 2017, the Company recorded net and comprehensive income attributable to shareholders of the Company of $1,048,224 compared to $4,224,770 for the same period in 2016. Similar to the quarter, the decrease period over period is largely a reflection of increased finance costs and stock based compensation in the period. In the six months ended June 30, 2017, the Company's net finance expense was $4,817,163 compared to net finance expense of $1,866,383 in the six months ended June 30, 2016. Additionally, the Company experienced additional stock based compensation costs of $1,133,927 compared to the same period in 2016. Excluding the impact of the additional finance costs and stock based compensation incurred in the six months, net and comprehensive income would be $5,132,931 for the six months ended June 30, 2017.

Net and comprehensive income attributable to non-controlling interest was $1,113,505 for the quarter ended June 30, 2017. This is an increase of $716,587 from the second quarter of 2017 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 $2,873,767 for the six months ended June 30, 2017, an increase of $2,401,913 from the same period in 2016.

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, 2016.

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)	Q2 '17	Q1 '17	Q4 '16	Q3 '16	Q2 '16	Q1 '16	Q4 '15	Q3 '15
Anesthesia services revenue	19,268	19,763	23,008	19,447	13,930	11,437	11,330	9,195
Product sales revenue	2,788	2,776	2,814	2,661	2,657	2,400	2,608	2,415
Total revenue	**22,055**	**22,539**	**25,822**	**22,108**	**16,587**	**13,837**	**13,938**	**11,610**
Total operating expense	**18,317**	**17,593**	**16,649**	**15,514**	**11,546**	**9,891**	**9,265**	**9,325**
Adjusted operating expenses[1]								
Anesthesia services[1]	9,840	9,469	9,492	8,794	6,158	5,323	5,061	4,023
Product sales[1]	1,142	1,037	1,083	974	1,004	998	950	888
Corporate[1]	844	985	746	685	853	754	664	798
Total adjusted operating expenses[1]	**11,825**	**11,491**	**11,321**	**10,453**	**8,015**	**7,075**	**6,675**	**5,709**
Operating income	**3,738**	**4,946**	**9,173**	**6,595**	**5,041**	**3,946**	**4,673**	**2,285**
Adjusted operating EBITDA[2] - non-controlling interest[4]	2,878	3,329	4,219	2,533	1,518	848	465	142
Adjusted operating EBITDA[2] - shareholders of the Company	**7,352**	**7,719**	**10,281**	**9,122**	**7,054**	**5,914**	**6,797**	**5,759**
Adjusted operating EBITDA[2] - total	**10,230**	**11,048**	**14,500**	**11,655**	**8,572**	**6,762**	**7,264**	**5,901**
Net finance (income) expense	3,571	1,246	1,175	1,381	2,156	(289)	5,914	1,013
Income tax expense (recovery)[3]	(453)	397	1,643	188	1,219	1,204	(1,541)	(442)
Net income	**620**	**3,302**	**6,354**	**5,026**	**1,666**	**3,031**	**299**	**1,714**
Attributable to:								
Shareholders of the Company	(494)	1,542	3,470	2,870	1,269	2,956	154	1,676
Non-controlling interest[4]	1,114	1,760	2,884	2,156	397	75	145	38
Adjusted Operating EBITDA[2] per share attributable to shareholders								
Basic	0.099	0.106	0.142	0.127	0.099	0.083	0.096	0.083
Diluted	0.097	0.102	0.138	0.123	0.095	0.080	0.092	0.080
Earnings (loss) per share attributable to shareholders								
Basic	(0.007)	0.021	0.048	0.040	0.018	0.041	0.002	0.024
Diluted	(0.007)	0.020	0.047	0.039	0.017	0.040	0.002	0.023

[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.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2017, the Company had $7,834,472 in cash and cash equivalents compared to $9,507,004 at the end of 2016. The decrease in cash and equivalents is primarily a reflection of cash generated from operations less cash used to finance acquisitions during the first quarter of 2017, less repayment of debt in the period.

Working capital was $11,339,624 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 were outstanding at June 30, 2017 was 39 days. At December 31, 2016, the average number of days receivables were 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 June 30, 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 $33,000,000 in 2015, which was subsequently increased to $55,000,000 in 2016. Most recently, the Company amended its debt facility with the Bank of Nova Scotia, increasing its facility to $100,000,000 on June 26, 2017. As at June 30, 2017, the Company owed $42,700,000 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, 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 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 paid and accrued fees of $501,565. As at June 30, 2017, the Company had drawn $42,700,000 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 June 30, 2017, the interest rate on the facility was 5.5%. Subsequent to July 6, 2017, interest on the facility is calculated at LIBOR plus 2.00%. 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	2.75:1.00
Fixed charge coverage ratio	1.15:1.00

The Company is in compliance with all covenants at June 30, 2017.

Cash provided by operating activities for the quarter ended June 30, 2017 was $9,750,558 compared to $5,617,065 for the same period in fiscal 2016. Cash provided by operating activities for the six months ended June 30, 2017 was $17,741,573 compared to $11,141,883 in 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, payments in respect of contingent consideration, 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.

There were no significant changes in the Company's contractual commitments compared with those set forth in the Company's 2016 Management Discussion and Analysis, available on SEDAR at www.sedar.com, except as noted below:

- As a result of the amendment of the Scotia Facility on June 26, 2017, the Company's quarterly principal payments are $625,000; and
- The Company has recorded contingent consideration in respect of the DDAB acquisition completed in February 2017. Contingent consideration of $891,118 is expected to be paid in August 2017.

OUTSTANDING SHARE CAPITAL

As at June 30, 2017, there were 74,102,238 common shares issued and outstanding for a total of $54,110,727 in share capital.

As at June 30, 2017, there were 1,413,437 options outstanding at a weighted-average exercise price of $0.51 per share, of which 1,170,937 were exercisable into common shares at a weighted-average exercise price of $0.51 per share. As at June 30, 2017, there were 2,285,000 share units issued and outstanding.

As at August 1, 2017 there were 74,102,238 common shares issued and outstanding for a total of $54,110,727 in share capital. There are 1,413,437 options outstanding at a weighted-average exercise price of $0.54 per share, of which 1,242,812 are exercisable into common shares at a weighted average price of $0.53 per share. As at August 1, 2017, there are 2,285,000 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 June 30, 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. There have been no changes to the Company’s identification of related parties, as defined under IAS 24, Related Party Disclosures.

For the three and six months ended June 30, 2017, the Company had related party transactions with key management personnel pertaining to the ordinary course of their employment or directorship arrangements. In addition, the Company made product sales to companies owned or controlled by one of the Company’s Directors.

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.

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)).

During the second quarter of 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 of 2017. Prior to its acquisition by the Company, DDAB and OGAA were privately held companies. Revenues totaling $1,369,550 and net loss before tax of $202,966 from these acquisitions were included in our consolidated interim financial statements for the quarter ended June 30, 2017.

CRITICAL ACCOUNTING ESTIMATES

There were no significant changes to the Company's critical accounting estimates during the quarter ended June 30, 2017, except as relating to the Company's updated estimate in respect of the DDAB contingent consideration.

CRH's critical accounting estimates are described in its MD&A for the year ended December 31, 2016, filed under the Company's profile on www.sedar.com.

FUTURE CHANGES IN ACCOUNTING POLICIES

All accounting standards effective for periods beginning on or after January 1, 2017 have been adopted by the Company. New accounting pronouncements issued but not yet effective are described in note 3 to the annual consolidated financial statements for the year ended December 31, 2016. There are no new standards issued subsequent to December 31, 2016 which are considered to have an impact on the Company.

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. There have been no significant changes to those risks impacting the Company since December 31, 2016, nor has there been a significant change in the composition of its financial instruments since December 31, 2016.

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 condensed consolidated interim financial statements and accompanying notes for the condensed consolidated interim financial statements for the three and six months ended June 30, 2017 and the consolidated financial statements and accompanying notes to the financial statements for the year ended December 31, 2016.

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)	Jun	Mar	Dec	Sep	Jun	Mar	Dec	Sep	Jun
Adjusted operating EBITDA attributable to:									
Shareholders of the Company	7,352	7,719	10,281	9,122	7,054	5,914	6,797	5,758	5,775
Non-controlling interest	2,878	3,328	4,219	2,533	1,518	848	465	142	-
Total adjusted operating EBITDA	**10,230**	**11,047**	**14,500**	**11,655**	**8,572**	**6,762**	**7,263**	**5,900**	**5,775**
Amortization expense	(5,603)	(5,059)	(4,715)	(4,711)	(2,925)	(2,475)	(2,188)	(1,745)	(1,459)
Depreciation and related expense	(20)	(13)	(30)	(31)	(30)	(15)	(18)	(17)	(17)
Stock based compensation	(781)	(906)	(525)	(297)	(290)	(264)	(261)	(1,001)	(1,145)
Acquisition expenses	(88)	(127)	(58)	(21)	(286)	(62)	(123)	(221)	-
Impairment of inventory	-	-	-	-	-	-	-	(241)	-
Impairment of intangible assets	-	-	-	-	-	-	-	(390)	-
Operating income	**3,738**	**4,946**	**9,172**	**6,595**	**5,041**	**3,946**	**4,673**	**2,285**	**3,154**
Net finance income (expense)	(3,571)	(1,246)	(1,175)	(1,381)	(2,156)	289	(5,914)	(1,013)	(4,492)
Income tax (expense) recovery	453	(397)	(1,643)	(188)	(1,219)	(1,205)	1,541	442	661
Net and comprehensive income (loss)	**620**	**3,302**	**6,354**	**5,026**	**1,666**	**3,030**	**300**	**1,714**	**(677)**

Adjusted operating expenses

For the three months ended	2017		2016				2015		
(USD in thousands)	Jun	Mar	Dec	Sep	Jun	Mar	Dec	Sep	Jun
Anesthesia services - adjusted operating expense	**9,840**	**9,469**	**9,492**	**8,794**	**6,158**	**5,323**	**5,061**	**4,023**	**3,460**
Amortization expense	5,603	5,056	4,715	4,711	2,925	2,475	2,188	1,745	1,459
Depreciation and related expense	3	2	1	3	2	2	4	3	2
Stock based compensation	106	149	120	38	27	17	12	13	10
Acquisition expenses	87	127	58	21	286	62	123	221	-
Impairment of intangible assets	-	-	-	-	-	-	-	390	-
Anesthesia services expense	**15,639**	**14,803**	**14,386**	**13,567**	**9,398**	**7,879**	**7,389**	**6,395**	**4,931**
Product sales - adjusted operating expense	**1,142**	**1,037**	**1,083**	**974**	**1,004**	**998**	**950**	**888**	**981**
Amortization expense	1	5	-	-	-	-	-	-	-
Depreciation and related expense	12	8	15	15	15	1	1	1	1
Stock based compensation	76	110	125	90	99	84	81	106	80
Impairment of inventory	-	-	-	-	-	-	-	241	-
Product sales expense	**1,231**	**1,160**	**1,223**	**1,079**	**1,118**	**1,083**	**1,031**	**1,236**	**1,062**
Corporate - adjusted operating expenses	**844**	**985**	**746**	**684**	**853**	**754**	**664**	**798**	**665**
Amortization expense	-	(4)	-	-	-	-	-	-	-
Depreciation and related expense	5	3	14	14	13	13	14	14	14
Stock based compensation	599	647	280	169	164	162	167	882	1,056
Acquisition expenses	-	-	-	-	-	-	-	-	-
Corporate expense	**1,448**	**1,630**	**1,040**	**867**	**1,030**	**929**	**845**	**1,694**	**1,735**
Total adjusted operating expense	**11,825**	**11,491**	**11,321**	**10,453**	**8,015**	**7,075**	**6,675**	**5,709**	**5,106**
Total operating expense	**18,317**	**17,593**	**16,649**	**15,514**	**11,546**	**9,891**	**9,265**	**9,325**	**7,728**

Condensed Consolidated Interim Financial Statements
(Expressed in United States dollars)

CRH MEDICAL CORPORATION

(Unaudited)

Three and six months ended June 30, 2017 and 2016

CRH MEDICAL CORPORATION

Condensed Consolidated Balance Sheets
(Unaudited)
(Expressed in United States dollars)

As at June 30, 2017 and December 31, 2016

	Notes		June 30, 2017		December 31, 2016
Assets					
Current assets:					
Cash and cash equivalents		$	7,834,472	$	9,507,004
Trade and other receivables			9,583,727		9,836,739
Current tax assets			1,413,185		1,551,140
Prepaid expenses and deposits			699,884		550,811
Inventories			357,269		300,760
			19,888,537		21,746,454
Non-current assets:					
Property and equipment			307,324		324,198
Intangible assets	4		138,449,580		133,667,311
Derivative asset	8		-		1,261,298
Deferred tax assets			8,711,591		6,539,621
			147,468,495		141,792,428
Total assets		$	167,357,032	$	163,538,882
Liabilities					
Current liabilities:					
Trade and other payables		$	3,795,317	$	3,229,685
Employee benefits			346,560		226,874
Current tax liabilities			233,672		2,067,671
Notes payable and bank indebtedness	9		2,332,812		5,791,787
Contingent consideration	4		891,118		-
Deferred consideration	4		889,434		773,134
Member loan	4		60,000		-
			8,548,913		12,089,151
Non-current liabilities:					
Deferred consideration	4		2,187,517		3,133,694
Notes payable	9		39,867,481		38,138,774
Earn-out obligation	12		13,438,575		13,149,130
Deferred tax liability			-		101,846
			55,493,573		54,523,444
Equity					
Share capital			54,110,727		52,706,484
Contributed surplus			7,404,743		7,142,964
Accumulated other comprehensive loss			(66,772)		(66,772)
Retained earnings			1,781,379		733,155
Total equity attributable to shareholders of the Company			63,230,077		60,515,831
Non-controlling interest			40,084,469		36,410,456
Total equity			103,314,546		96,926,287
Total liabilities and equity		$	167,357,032	$	163,538,882

See accompanying notes to condensed consolidated interim financial statements.
Subsequent event (note 14)

Approved on behalf of the Board:

(signed) "Edward Wright" Director
Edward Wright

(signed) "Anthony Holler" Director
Anthony Holler

CRH MEDICAL CORPORATION

Condensed Consolidated Interim Statements of Operations and Comprehensive Income
(Unaudited)
(Expressed in United States dollars)

Three and six month periods ended June 30, 2017 and 2016

		Three months ended		Six months ended	
	Notes	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Revenue:					
Anesthesia services	13	$ 19,267,771	$ 13,930,346	$ 39,030,203	$ 25,367,087
Product sales	13	2,787,678	2,657,195	5,563,993	5,057,305
		22,055,449	16,587,541	44,594,196	30,424,392
Expenses:					
Anesthesia services expense	5	15,638,612	9,398,263	30,441,883	17,276,895
Product sales expense	6	1,230,649	1,117,789	2,390,608	2,200,530
Corporate expense	7	1,448,104	1,030,377	3,078,019	1,959,809
		18,317,365	11,546,429	35,910,510	21,437,234
Operating income		3,738,084	5,041,112	8,683,686	8,987,158
Finance income	11	-	-	-	(1,002,774)
Finance expense	11	3,570,947	2,155,698	4,817,163	2,869,157
Income before tax		167,137	2,885,414	3,866,523	7,120,775
Income tax expense (recovery)		(452,737)	1,219,274	(55,468)	2,424,151
Net and comprehensive income		$ 619,874	$ 1,666,140	3,921,991	$ 4,696,624
Attributable to:					
Shareholders of the Company		$ (493,631)	$ 1,269,222	$ 1,048,224	$ 4,224,770
Non-controlling interest		1,113,505	396,918	2,873,767	471,854
		$ 619,874	$ 1,666,140	$ 3,921,991	$ 4,696,624
Earnings (loss) per share attributable to shareholders:					
Basic	10(d)	$ (0.007)	$ 0.018	$ 0.014	$ 0.059
Diluted	10(d)	$ (0.007)	$ 0.017	$ 0.014	$ 0.057
Weighted average shares outstanding:					
Basic		73,995,168	71,526,481	73,467,760	71,387,919
Diluted		73,995,168	74,131,193	75,745,463	74,058,557

See accompanying notes to condensed consolidated interim financial statements.

CRH MEDICAL CORPORATION

Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited)
(Expressed in United States dollars)

Six months ended June 30, 2017 and 2016

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	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 period	-	-	-	-	4,224,770	471,854	4,696,624
Transactions with owners, recorded directly in equity:							
Stock-based compensation expense	-	-	553,559	-	-	-	553,559
Common shares purchased on exercise of options	331,250	295,243	(140,163)	-	-	-	155,080
Common shares issued on vesting of share units	80,000	229,378	(229,378)	-	-	-	-
Exercise of broker warrants (note 10)	46,851	169,430	(48,335)	-	-	-	121,095
Distribution to non-controlling interest	-	-	-	-	-	(795,131)	(795,131)
Acquisition of non-controlling interest (note 4)	-	-	-	-	-	27,334,322	27,334,322
Balance as at June 30, 2016	71,664,648	$ 51,760,095	$ 6,692,634	$ (66,772)	$ (5,606,308)	$ 36,260,265	$ 89,039,914
Balance as at January 1, 2017	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 period	-	-	-	-	1,048,224	2,873,767	3,921,991
Transactions with owners, recorded directly in equity:							
Stock-based compensation expense	-	-	1,687,487	-	-	-	1,687,487
Common shares purchased on exercise of options	178,750	79,369	(33,812)	-	-	-	45,557
Common shares issued on vesting of share units	1,177,549	1,324,874	(1,391,896)	-	-	-	(67,022)
Distribution to non-controlling interest	-	-	-	-	-	(6,253,212)	(6,253,212)
Acquisition of non-controlling interest (note 4)	-	-	-	-	-	7,053,458	7,053,458
Balance as at June 30, 2017	74,102,238	$ 54,110,727	$ 7,404,743	$ (66,772)	$ 1,781,379	$ 40,084,469	$ 103,314,546

See accompanying notes to condensed consolidated interim financial statements.

CRH MEDICAL CORPORATION

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

Three and six month periods ended June 30, 2017 and 2016

	Notes	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Cash provided by (used in)					
Operating activities:					
Net income (loss)		$ 619,874	$ 1,666,140	$ 3,921,991	$ 4,696,624
Adjustments for:					
Depreciation of property, equipment and intangibles		5,622,813	2,954,840	10,691,765	5,445,427
Stock based compensation expense		781,113	289,824	1,687,487	553,559
Unrealized foreign exchange (gain) loss		176,410	473,110	87,441	(1,055,104)
Finance expense		3,393,222	1,640,630	4,729,075	2,869,157
Income tax expense (recovery)		(452,737)	1,219,274	(55,468)	2,424,151
Operating activity before changes in operating assets and liabilities		10,140,695	8,243,818	21,062,291	14,933,814
Taxes paid		(912,340)	(1,570,029)	(3,852,511)	(2,728,138)
Change in trade and other receivables		27,910	(2,793,337)	253,012	(1,997,191)
Change in prepaid expenses and deposits		45,597	69,753	(149,073)	95,166
Change in inventories		53,484	(26,516)	(56,509)	(27,786)
Change in trade and other payables		361,378	1,580,352	364,677	740,187
Change in employee benefits		33,834	8,024	119,686	20,831
Change in advance		-	105,000	-	105,000
Cash provided by operating activities		9,750,558	5,617,065	17,741,573	11,141,883
Financing activities					
Proceeds on member loan		-	2,100	60,000	(164,094)
Proceeds (repayment) of working capital advance		(71,819)	-	-	-
Payment of deferred consideration		(900,000)	-	(900,000)	-
Proceeds on bank indebtedness	9	42,700,000	26,000,000	46,700,000	26,000,000
Repayment of notes payable and bank indebtedness	9	(50,043,750)	(2,250,000)	(50,043,750)	(3,250,000)
Repayment of interest on notes payable and bank indebtedness		(1,573,476)	(685,664)	(2,403,310)	(1,368,800)
Payment of financing fees		(354,565)	(564,460)	(354,565)	(564,460)
Proceeds on settlement of derivative asset		1,313,874	-	1,313,874	-
Distribution to non-controlling interest		(2,241,631)	(671,319)	(6,253,212)	(1,308,319)
Proceeds from the exercise of broker warrants		-	-	-	121,095
Proceeds from the issuance of shares relating to stock based compensation		33,152	101,934	(21,465)	155,080
Cash provided by (used in) financing activities		(11,138,215)	21,932,591	(11,902,428)	19,620,502
Investing activities					
Acquisition of property and equipment		(11,559)	(10,110)	(20,974)	(104,141)
Acquisition of anesthesia services providers	4	-	(30,062,239)	(7,491,610)	(30,062,239)
Cash used in investing activities		(11,559)	(30,072,349)	(7,512,584)	(30,166,380)
Effects of foreign exchange on cash and cash equivalents		1,449	3,085	907	9,299
Increase (decrease) in cash and cash equivalents		(1,397,767)	(2,519,608)	(1,672,532)	605,304
Cash and cash equivalents, beginning of period		9,232,239	6,697,256	9,507,004	3,572,344
Cash and cash equivalents, end of period		$ 7,834,472	$ 4,177,648	$ 7,834,472	$ 4,177,648

See accompanying notes to condensed consolidated interim 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 unaudited condensed consolidated interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Accordingly, these condensed consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). These condensed consolidated interim financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2016. In management's opinion, all adjustments considered necessary for fair presentation have been included in these financial statements. Interim results are not necessarily indicative of the results expected for the fiscal year.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 1, 2017.

(b) Basis of measurement:

The Company's condensed consolidated interim 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 condensed consolidated interim financial statements are presented in United States dollars, which is the Company's presentational 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 condensed consolidated interim 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.

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, including liabilities relating to contingent and deferred consideration, the vesting term for share units with market and performance 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.

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.

(e) Comparative information:

Certain comparative information has been reclassified to conform with the presentation adopted in the current fiscal year.

3. Significant accounting policies:

These condensed consolidated interim financial statements have been prepared using the significant accounting policies and methods of computation consistent with those applied in the Company's December 31, 2016 annual consolidated financial statements.

The Company has not early adopted any amendment, standard or interpretation that has been issued by the IASB but is not yet effective. Amendments, standards and interpretations that are issued but not yet effective are described in the Company's annual financial statements for the period ended December 31, 2016.

(Expressed in United States dollars)

4. Business combinations:

During the first quarter of 2017, the Company completed two 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	$4,980,909
Osceola Gastroenterology Anesthesia Associates, LLC ("OGAA")	March 2017	$3,401,819

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	Total
Cash	$ 4,089,791	$ 3,401,819	$ 7,491,610
Contingent consideration	891,118	-	891,118
Purchase consideration	$ 4,980,909	$ 3,401,819	8,382,728
Non-controlling interest	4,785,579	2,267,879	7,053,458
	$ 9,766,488	$ 5,669,698	$ 15,436,186
Assets and liabilities acquired:			
Exclusive professional services agreements	9,766,488	$ 5,669,698	$ 15,436,186
Pre-close trade receivables	525,000	-	525,000
Pre-close trade payables	(525,000)	-	(525,000)
Fair value of net identifiable assets and liabilities acquired	$ 9,766,488	$ 5,669,698	$ 15,436,186
Exclusive professional services agreements – amortization term	4.5 years	5 years	
Acquisition costs expensed			$ 126,881

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.

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 may be adjusted seven months following the acquisition date for actual cash collections in the months up to purchase. Contingent consideration of $891,118 was recorded in the second quarter of 2017 with respect to the estimated 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 $4,785,579 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 June 30, 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 terms of the loans are such that they will be repaid first, prior to any future distributions and are non-interest bearing.

In the three and six months ended June 30, 2017, the above noted acquisitions contributed revenue and net earnings before tax as follows:

(Expressed in United States dollars)

4. Business combinations (continued):

	Three months ended June 30, 2017		
	DDAB	OGAA	Total
Revenue	$ 815,183	$ 554,367	$ 1,369,550
Net earnings (loss) before tax	$ (189,352)	$ (13,614)	$ (202,966)
Amortization	$ 607,297	$ 283,485	$ 890,782

	Six months ended June 30, 2017		
	DDAB	OGAA	Total
Revenue	$ 1,382,871	$ 660,815	$ 2,043,686
Net earnings (loss) before tax	$ (172,797)	$ 1,206	$ (171,591)
Amortization	$ 904,304	$ 330,732	$ 1,235,036

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 $45.3 million and net income before tax would have been approximately $3.8 million.

Pro Forma Information (unaudited)	Six months ended June 30, 2017		
	DDAB	OGAA	Total
Revenue	$ 1,659,445	$ 1,132,826	$ 2,792,271
Net earnings before tax	$ (207,356)	$ 2,067	$ (205,289)
Amortization	$ 1,085,165	$ 566,970	$ 1,652,135

During the period ended June 30, 2016, the Company completed three 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
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.

(Expressed in United States dollars)

4. Business combinations (continued):

The following table summarizes the fair value of the consideration transferred and the fair values of the assets and liabilities acquired at the acquisition date.

	AGAA	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

As a result of the above business combinations completed in 2016, the Company recognized intangible assets totaling $61,218,456 during the year ended December 31, 2016, along with non-controlling interest of $27,059,922.

(Expressed in United States dollars)

5. Anesthesia services expense:

For the three and six month periods ended June 30:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Employee related	$ 6,825,874	$ 3,850,970	$ 13,215,293	$ 7,251,839
Depreciation and amortization	5,605,068	2,926,907	10,662,643	5,404,079
Bad debt expense	1,127,446	780,543	2,297,541	1,433,149
Office related	1,510,466	1,185,161	3,022,985	2,165,533
Acquisition expense	88,027	286,402	214,908	348,251
Medical supplies	107,539	193,709	280,221	357,877
Stock-based compensation	105,971	26,750	255,361	43,514
Professional fees	133,826	103,890	236,435	188,962
Insurance	58,909	18,078	115,587	31,185
Travel and entertainment	75,486	25,553	140,909	52,206
Corporate related expenses	-	300	-	300
	$ 15,638,612	$ 9,398,263	$ 30,441,883	$ 17,276,895

6. Product sales expense:

For the three and six month periods ended June 30:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Employee related	$ 412,190	$ 361,575	$ 826,102	$ 720,098
Product cost and support	517,753	485,952	996,924	972,442
Professional fees	135,355	70,800	218,553	144,491
Office related	71,389	66,464	132,874	126,862
Stock-based compensation	76,050	98,884	186,509	182,764
Insurance	2,306	13,831	7,412	27,552
Depreciation and amortization	12,624	15,019	25,145	15,643
Foreign exchange	2,982	5,264	(2,911)	10,678
	$ 1,230,649	$ 1,117,789	$ 2,390,608	$ 2,200,530

(Expressed in United States dollars)

7. Corporate expense:

For the three and six month periods ended June 30:

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Employee related	$ 371,669	$ 314,919	$ 813,455	$ 638,248
Professional expenses	147,915	197,335	395,030	350,568
Corporate	137,742	127,681	238,584	237,328
Stock-based compensation	599,092	164,190	1,245,616	327,281
Travel and entertainment	59,123	93,541	109,914	149,639
Office related	52,604	45,561	97,042	87,294
Insurance	77,889	64,735	153,020	125,697
Depreciation and amortization	5,122	12,914	3,976	25,705
Foreign exchange	(3,052)	9,501	21,382	18,049
	$ 1,448,104	$ 1,030,377	$ 3,078,019	$ 1,959,809

8. 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 9) 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 12). In conjunction with the extinguishment of the Crown Note (note 9), 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.

9. Notes payable:

June 30, 2017	Crown Note	Scotia Facility	Total
Current portion	$ -	2,332,812	$ 2,332,812
Non-current portion	-	39,867,481	39,867,481
Total loans and borrowings	$ -	42,200,293	$ 42,200,293

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

(Expressed in United States dollars)

9. Notes payable (continued):

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, 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 $501,565. As at June 30, 2017, the Company had drawn $42,700,000 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 June 30, 2017, the interest rate on the facility was 5.5%. Subsequent to July 6, 2017, interest on the facility is calculated at LIBOR plus 2.00%. 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	2.75:1.00
Fixed charge coverage ratio	1.15:1.00

(Expressed in United States dollars)

9. Notes payable (continued):

The Company is in compliance with all covenants at June 30, 2017.

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

	Minimum Principal
At June 30, 2017	
Not later than one year	$ 2,500,000
Between one and five years	$ 40,200,000
	$ 42,700,000

10. Share capital:

(a) Issued and outstanding – common shares:

Other than in connection with shares issued in respect of the Company's share unit and share option plans, there were no share transactions in the three and six months ended June 30, 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 $48,335 (CAD$60,502).

(b) Share unit plan:

In June 2017, the shareholders of the Company approved the 2017 Share Unit Plan. The 2017 Share Unit Plan is substantially similar to the Share Unit Plan adopted in 2014 and amends certain of the provisions in the 2014 plan to adhere to best practice corporate governance practices. 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, performance-based vesting conditions or a combination of the two. Once the share units vest, the participant is entitled to receive the equivalent number of underlying common shares.

(Expressed in United States dollars)

10. Share capital (continued):

(b) Share unit plan (continued):

A summary of the status of the plan as of June 30, 2017 and 2016 is as follows:

	Time based share units	Performance based share units
Outstanding, January 1, 2016	509,000	1,000,000
Issued	64,000	-
Vested	(80,000)	-
Forfeited	(15,000)	-
Expired	-	-
Outstanding, June 30, 2016	478,000	1,000,000
Outstanding, January 1, 2017	1,068,000	2,350,000
Issued	84,000	-
Vested	(187,000)	(1,000,000)
Forfeited	(30,000)	-
Expired	-	-
Outstanding, June 30, 2017	935,000	1,350,000

During the three and six months ended June 30, 2017, 1,000,000 of those units which vested 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 177,549 in respect of 187,000 time based share units which vested during the three and six months ended June 30, 2017.

During the quarter ended June 30, 2017, the Company recognized $774,985 (2016 - $261,736) in compensation expense in relation to share units.

During the six months ended June 30, 2017, the Company recognized $1,672,981 (2016 - $493,135) in compensation expense in relation to share units.

(c) Stock option plan:

During the quarter ended June 30, 2017, the Company recognized $6,128 (2016 - $28,088) in compensation expense in relation to stock options.

During the six months ended June 30, 2017, the Company recognized $14,506 (2016 – $60,424) in compensation expense in relation to stock options.

(Expressed in United States dollars)

10. Share capital (continued):

(d) Earnings per share:

The calculation of basic earnings per share for the three months ended June 30, 2017 and 2016 is as follows.

	Three months ended June 30					
	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 (loss):						
Earnings (loss) per common share:						
Basic	$ (493,631)	73,995,168	$ (0.007)	$ 1,269,222	71,526,481	$ 0.018
Share options		-			2,291,677	
Share units		-			259,181	
Broker warrants		-			53,854	
Diluted	$ (493,631)	73,995,168	$ (0.007)	$ 1,269,222	74,131,193	$ 0.017

For the three months ended June 30, 2017, 1,470,666 options (2016 – 405,120) and 2,256,505 share units (2016 – 1,238,686) were excluded from the diluted weighted average number of common shares calculation.

The calculation of basic earnings per share for the six months ended June 30, 2017 and 2016 is as follows.

	Six months ended June 30					
	2017			2016		
	Net earnings	Weighted average number of common shares outstanding	Per share amount	Net earnings (loss)	Weighted average number of common shares outstanding	Per share amount
Net earnings:						
Earnings per common share:						
Basic	$ 1,048,224	73,467,760	$ 0.014	$ 4,224,770	71,387,919	$ 0.059
Share options		1,413,055			2,366,564	
Share units		864,648			227,442	
Broker warrants		-			76,632	
Diluted	$ 1,048,224	75,745,463	$ 0.014	$ 4,224,770	74,058,557	$ 0.057

(Expressed in United States dollars)

10. Share capital (continued):

(d) Earnings per share (continued):

For the six months ended June 30, 2017, 112,127 options (2016 – 443,887) and 1,872,827 share units (2016 – 1,270,799) 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.

11. Net finance expense

Recognized in earnings in the three and six months ended June 30:

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Finance income:				
Foreign exchange (gain)	$ -	$ -	$ -	$ (1,002,774)
Total finance income	-	$ -	$ -	$ (1,002,774)
Finance expense:				
Interest and accretion expense on borrowings	$ 1,062,098	$ 953,761	$ 2,148,774	$ 1,817,722
Accretion expense on earn-out obligation and deferred consideration	155,929	133,877	315,503	269,432
Amortization of deferred financing fees	76,131	417,330	150,405	465,926
Net change in fair value of financial liabilities at fair value through earnings	29,200	124,755	44,063	303,859
Foreign exchange loss	177,722	515,070	88,084	-
Extinguishment of notes payable and bank indebtedness	2,044,867	-	2,044,867	-
Other	25,000	10,905	25,467	12,218
Total finance expense	$ 3,570,947	$ 2,155,698	$ 4,817,163	$ 2,869,157
Net finance expense	$ 3,570,947	$ 2,155,698	$ 4,817,163	$ 1,866,383

12. 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, member 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.

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).

(Expressed in United States dollars)

12. Financial instruments (continued):

The Company's derivative asset was carried at fair value as disclosed in note 8. 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 were available, they were not quoted in an active market. As at June 30, 2017, the derivative had been settled.

The Company's earn-out obligation is measured at fair value on a recurring basis using significant unobservable inputs (Level 3). The Company has used a probability weighted valuation technique in calculating the fair value of the earn-out obligation. This valuation technique included inputs relating to estimated cash outflows under the arrangement and the use of a discount rate appropriate to the Company. The Company evaluates the inputs into the probability weighted valuation technique at each reporting period. During the three and six months ended June 30, 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. The downward adjustment of the discount rate from 3.80% at December 31, 2016 to 3.57% at June 30, 2017 resulted in an increase of $44,063 to the fair value of the earn-out obligation. The impact of this adjustment was recorded through finance expense in the period with $29,200 recorded in the three months ended June 30, 2017 and $14,863 recorded in the three months ended March 31, 2017.

The fair value measurements are sensitive to the discount rate used in calculating the fair values. A 1% increase in the discount rate would reduce the fair value of the earn-out obligation by $180,707. During the three and six months ended June 30, 2017, the Company recorded accretion expense of $122,207 and $245,382, respectively, 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	245,382
Fair value adjustment	44,063
Balance as at June 30, 2017	$ 13,438,575

13. 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 three and six months ended June 30, 2017 and 2016 are as follows:

	Three months ended		Six months ended	
Revenue:	**June 30, 2017**	**June 30, 2016**	**June 30, 2017**	**June 30, 2016**
Canada and other	$ 62,855	$ 40,751	$ 124,052	$ 100,574
United States	21,992,594	16,546,790	44,470,144	30,323,818
Total	$ 22,055,449	$ 16,587,541	$ 44,594,196	$ 30,424,392

The Company's property and equipment and intangible assets are located in the following geographic regions as at June 30, 2017 and December 31, 2016:

	2017	**2016**
Property and equipment:		
Canada	$ 293,103	$ 316,145
United States	14,221	8,053
Total	$ 307,324	$ 324,198
Intangible assets:		
Canada	$ 36,498	$ 31,934
United States	138,413,082	133,635,377
Total	$ 138,449,580	$ 133,667,311

(Expressed in United States dollars)

13. Segmented information (continued):

The financial measures reviewed by the Company's Chief Operating Decision Maker are presented below for the three and six months ended June 30, 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.

	Three months ended June 30, 2017			
	Anesthesia services	Product sales	Other	Total
Revenue	$ 19,267,771	$ 2,787,678	$ -	$ 22,055,449
Operating costs	15,638,612	1,230,649	1,448,104	18,317,365
Operating income	$ 3,629,159	$ 1,557,029	$ (1,448,104)	$ 3,738,084

	Three months ended June 30, 2016			
	Anesthesia services	Product sales	Other	Total
Revenue	$ 13,930,346	$ 2,657,195	$ -	$ 16,587,541
Operating costs	9,398,263	1,117,789	1,030,377	11,546,429
Operating income	$ 4,532,083	$ 1,539,406	$ (1,030,377)	$ 5,041,112

	Six months ended June 30, 2017			
	Anesthesia services	Product sales	Other	Total
Revenue	$ 39,030,203	$ 5,563,993	$ -	$ 44,594,196
Operating costs	30,441,883	2,390,608	3,078,019	35,910,510
Operating income	$ 8,588,320	$ 3,173,385	$ (3,078,019)	$ 8,683,686

	Six months ended June 30, 2016			
	Anesthesia services	Product sales	Other	Total
Revenue	$ 25,367,087	$ 5,057,305	$ -	$ 30,424,392
Operating costs	17,276,895	2,200,530	1,959,809	21,437,234
Operating income	$ 8,090,192	$ 2,856,775	$ (1,959,809)	$ 8,987,158

14. Subsequent event:

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 preliminary estimate of the fair value of the exclusive professional service agreement which was acquired as part of this acquisition is $10,618,181. The Company expects to consolidate this entity in its consolidated financial statements as a result of the interest acquired in combination with the Company's operating agreement with WFAA.