CRH Medical Corporation

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Three Months Ended March 31, 2017
Financial Report

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

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS MARCH 31, 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 three months ended March 31, 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 April 26, 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 credit facility. The Company's ability to maintain the carrying value of its assets is dependent on successfully marketing its products and 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.

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SELECTED FINANCIAL INFORMATION

	Q1 2017	Q1 2016
Anesthesia services revenue	$ 19,762,432	$ 11,436,741
Product sales revenue	2,776,315	2,400,110
Total revenue	**22,538,747**	**13,836,851**
Total operating expenses	**17,593,145**	**9,890,802**
Operating income	**4,945,602**	**3,946,049**
Net and comprehensive income	**$ 3,302,118**	**$ 3,030,485**
Attributable to:		
Shareholders of the Company	1,541,856	2,955,548
Non-controlling interest[3]	1,760,262	74,937
Earnings per share attributable to shareholders:		
Basic	$ 0.021	$ 0.041
Diluted	$ 0.020	$ 0.040
Total assets	$ 172,775,554	$ 106,656,345
Total non-current liabilities	$ 13,117,125	$ 39,956,639
Total liabilities	$ 69,509,684	$ 46,850,520

RECENT EVENTS

The Company has continued in its goal of consolidating the highly fragmented gastroenterology anesthesia provider business by acquiring two additional gastroenterology anesthesia services providers in the first quarter of 2017. Additionally, the Company entered into an exclusive agreement to develop and manage a monitored anesthesia care program.

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. The preliminary estimate of the fair value of the exclusive professional service agreement which was acquired as part of this acquisition is $8,019,198.

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

		Q1 2017		Q1 2016
Anesthesia services revenue	$	19,762,432	$	11,436,741
Product sales revenue		2,776,315		2,400,110
Total revenue		**22,538,747**		**13,836,851**
Adjusted operating expenses[1]				
Anesthesia services		9,469,424		5,322,845
Product sales		1,036,979		998,234
Corporate		984,535		753,551
Total Adjusted operating expenses[1]	**$**	**11,490,938**	**$**	**7,074,630**
Adjusted operating EBITDA[2] – non-controlling interest[3]		3,328,502		848,443
Adjusted operating EBITDA[2] - shareholders of the Company		**7,719,307**		**5,913,778**
Adjusted operating EBITDA[2] - total	**$**	**11,047,809**	**$**	**6,762,221**
Adjusted Operating EBITDA[2] per share attributable to shareholders:				
Basic	$	0.106	$	0.083
Diluted	$	0.102	$	0.080

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

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

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

RESULTS OF OPERATIONS – three months ended March 31, 2017

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

Revenue

Revenues for the quarter ended March 31, 2017 were $22,538,747 compared to $13,836,851 for the quarter ended March 31, 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 from anesthesia services for the quarter ended March 31, 2017 were $19,762,432 compared to $11,436,741 for the first 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.

During the three months ended March 31, 2017 there were no material changes in anesthesia reimbursement rates. However, there was a change in the payor mix in our GAA business as a result of the annual renewal process that insured individuals and companies go through when selecting their plans and providers. Changes in payor mix are normal, especially due to the competitive nature of the renewal process, and such changes can have either a positive or negative impact or no impact at all on our business. With respect to GAA, the average revenue per case declined by 12% compared to the first quarter of 2016, which was partially offset by an increase in patient cases of 8%. The payor mix changes at GAA relate to a single commercial payor. Any future payor mix changes related to this payor will not be material. There were no material payor mix changes in any of our other anesthesia entities. The Company's continued expansion of its anesthesia business has and is expected, in future, to mitigate the effect these kinds of changes in payor mix can have on our financial results.

In the quarter ended March 31, 2017, the anesthesia services segment serviced 42,363 patient cases compared to 24,440 patient cases during the quarter ended March 31, 2016.

The tables below summarizes our approximate payor mix as a percentage of patient cases for the quarters ended March 31, 2017 and 2016:

	Quarter ended	
Payor	March 31, 2017	March 31, 2016
Medicare and other government programs	28.9%	35.0%
Medicaid	3.5%	3.8%
Commercial and other	67.6%	61.2%
Total	**100.0%**	**100.0%**

The payor mix for the quarter ended March 31, 2017 includes acquisitions completed during the second quarter of 2016 and as a result is not directly comparable to the period ending March 31, 2016.

Due to the inherent nature of 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%

In the future, 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 diagnose 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 March 31, 2017 were $2,776,315 compared to $2,400,110 for the first 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. As of March 31, 2017, the Company has trained 2,490 physicians to use the O'Regan System, representing 963 clinical practices. This compares to 2,240 physicians trained, representing 842 clinical practices, as of March 31, 2016

In the future, the Company expects revenue from product sales to continue to increase, as it has historically, as we expand our physician network and increase physician use of our technology.

Total adjusted operating expenses

For the quarter ended March 31, 2017, total adjusted operating expenses were $11,490,938 compared to $7,074,630 for the quarter ended March 31, 2016. Increases in adjusted operating expenses are primarily related to adjusted operating expenses in the anesthesia services business. Factors impacting the fluctuation of total adjusted operating expenses are consistent with those impacting operating expenses.

Anesthesia services adjusted operating expenses for the quarter ended March 31, 2017 were $9,469,424, compared to $5,322,845 for the first quarter of 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 further acquisitions completed in 2015, 2016 and 2017. As a result, 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.

Product sales adjusted operating expenses for the quarter ended March 31, 2017 were $1,036,979 compared to $998,234 for the quarter ended March 31, 2016. The increase in product sales adjusted operating expenses compared to 2016 is a reflection of higher employee related costs as a result of increased sales activity. 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.

Corporate adjusted operating expenses for the quarter ended March 31, 2017 were $984,535 compared to $753,551 for the quarter ended March 31, 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 March 31, 2017 was $4,945,602 compared to $3,946,049 for the same period in 2016. Contributing to the improved operating income for the quarter is an increase in total adjusted operating EBITDA of $4,285,588, less incremental costs related to the amortization of acquired professional service agreements relating to acquisitions completed in 2016 and 2017 of $2,580,914, an increase in stock based compensation expense of $642,639 and additional acquisition expenses of $65,031. Fluctuations in revenue will not necessarily result in correlating fluctuations in operating expenses due to the fixed nature of these costs.

Anesthesia operating income for the quarter ended March 31, 2017 was $4,959,161, an increase of $1,401,053 from the same period in 2016. This is primarily reflective of the additional operating income generated by the acquisitions completed in 2016 and the most recent acquisitions completed in 2017.

Product operating income for the quarter ended March 31, 2017 was $1,616,356, an increase of $298,984 from the same period in 2016. The increase is primarily a result of the increased revenue in the quarter ended March 31, 2017, offset by increases in employee related expenses.

Adjusted operating EBITDA

Adjusted operating EBITDA attributable to shareholders of the Company for the quarter ended March 31, 2017 was $7,719,307, an increase of $1,805,529 from the quarter ended March 31, 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 non-controlling interest was $3,328,502 for the quarter ended March 31, 2017. This comprises the non-controlling interests' share of revenues of $5,574,370 and adjusted operating expenses of $2,245,868.

Total adjusted operating EBITDA was $11,047,809 for the quarter ended March 31, 2017, an increase of $4,285,588 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 $1,246,215 for the quarter ended March 31, 2017, compared to a net finance recovery of $289,315 for the quarter ended March 31, 2016. Net finance expense is comprised of both interest and other debt related expenses, including fair value adjustments, as well as foreign exchange gains and losses on the Crown debt which 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 locks in the repayment of the Crown debt principal and interest at a Canadian dollar to U.S. dollar rate of 1.448.

Cash interest paid in the quarter ended March 31, 2017 was $829,834 compared to $683,136 in the quarter ended March 31, 2016. The increase in cash interest expense compared to the first quarter of 2016 is largely due to the amount borrowed under the Company's Scotia credit facility at the end of each of these periods. At March 31, 2017, the Company owed $33 million under the facility as compared to $16 million owed at March 31, 2016.

In the quarter ended March 31, 2017, the Company recorded an exchange gain of $89,638 in relation to the Crown note and the cross currency swap, compared to an exchange gain of $1,517,844 recorded in the first quarter of 2016. Excluding the impact of the exchange gain in the period, the finance expense for the quarter ended March 31, 2017 was $1,335,853 compared to $1,228,529 recorded in the same period in 2016. Finance expense, excluding fair value adjustments and exchange gains, was $1,320,990, compared to $1,049,425 for the quarter ended March 31, 2016. The fair value adjustment recorded in the quarter ($14,863) resulted from changes in estimates underlying the Company's earn-out obligation.

Income tax expense

For the quarter ended March 31, 2017, the Company recorded an income tax expense of $397,269 compared to income tax expense of $1,204,879 for the quarter ended March 31, 2016. The expense experienced in 2017 is a reflection of taxable income generated in Canada, offset by taxable losses in the US. Income tax expense relates only to income attributable to the Company's shareholders. Throughout 2016, the effective tax rate in respect of this income was 28%. Due to the income allocation between Canada and the US in the first quarter of the year, the effective tax rate was 22%. 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 March 31, 2017, the Company recorded net and comprehensive income attributable to shareholders of the Company of $1,541,856 compared to a net and comprehensive income attributable to shareholders of $2,955,548 for the quarter ended March 31, 2016. The decrease quarter over quarter is a reflection of increased finance costs and stock based compensation in the first quarter of 2017 as compared to the first quarter of 2016. In the first quarter of 2017, the Company's net finance expense was $1,246,215 compared to a net finance recovery of $289,315 in the first quarter of 2016. The recovery in 2016 is reflective of a significant $1,517,844 foreign exchange gain related to the Company's Crown note which is not expected to recur. Additionally, the Company experienced additional stock based compensation costs of $642,639 compared to the first 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 first quarter of 2016.

Net and comprehensive income attributable to non-controlling interest was $1,760,262 for the quarter ended March 31, 2017. This is an increase of $1,685,325 from the first quarter of 2016 and reflects the business model adopted by CRH whereby recent acquisitions, though controlled by CRH, attribute a portion of income earned to non-controlling interests.

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)	Q1 '17	Q4 '16	Q3 '16	Q2 '16	Q1 '16	Q4 '15	Q3 '15	Q2 '15
Anesthesia services revenue	19,763	23,008	19,447	13,930	11,437	11,330	9,195	8,514
Product sales revenue	2,776	2,814	2,661	2,657	2,400	2,608	2,415	2,367
Total revenue	**22,539**	**25,822**	**22,108**	**16,587**	**13,837**	**13,938**	**11,610**	**10,881**
Total operating expense	**17,593**	**16,649**	**15,514**	**11,546**	**9,891**	**9,265**	**9,325**	**7,728**
Adjusted operating expenses[1]								
Anesthesia services[1]	9,469	9,492	8,794	6,158	5,323	5,061	4,023	3,460
Product sales[1]	1,037	1,083	974	1,004	998	950	888	981
Corporate[1]	985	746	685	853	754	664	798	665
Total adjusted operating expenses[1]	**11,491**	**11,321**	**10,453**	**8,015**	**7,075**	**6,675**	**5,709**	**5,106**
Operating income	**4,946**	**9,173**	**6,595**	**5,041**	**3,946**	**4,673**	**2,285**	**3,154**
Adjusted operating EBITDA[2] - non-controlling interest[4]	3,329	4,219	2,533	1,518	848	465	142	-
Adjusted operating EBITDA[2] - shareholders of the Company	**7,719**	**10,281**	**9,122**	**7,054**	**5,914**	**6,797**	**5,759**	**5,775**
Adjusted operating EBITDA[2] - total	**11,048**	**14,500**	**11,655**	**8,572**	**6,762**	**7,264**	**5,901**	**5,775**
Net finance (income) expense	1,246	1,175	1,381	2,156	(289)	5,914	1,013	4,492
Income tax expense (recovery)[3]	397	1,643	188	1,219	1,204	(1,541)	(442)	(661)
Net income (loss)	**3,302**	**6,354**	**5,026**	**1,666**	**3,031**	**299**	**1,714**	**(678)**
Attributable to:								
Shareholders of the Company	1,542	3,470	2,870	1,269	2,956	154	1,676	(678)
Non-controlling interest[4]	1,760	2,884	2,156	397	75	145	38	-
Adjusted Operating EBITDA[2] per share attributable to shareholders								
Basic	0.106	0.142	0.127	0.099	0.083	0.096	0.083	0.083
Diluted	0.102	0.138	0.123	0.095	0.080	0.092	0.080	0.083
Earnings (loss) per share attributable to shareholders								
Basic	0.021	0.048	0.040	0.018	0.041	0.002	0.024	(0.010)
Diluted	0.020	0.047	0.039	0.017	0.040	0.002	0.023	(0.010)

[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 March 31, 2017, the Company had $9,232,240 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.

Working capital was $9,859,625 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 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 March 31, 2017, the Company has raised approximately $51 million from the sale and issuance of equity securities. The Company also obtained debt financing of $52 million via senior and subordinated credit facilities with Crown, Bloom Burton and Knight in 2014 and entered into a revolving credit facility with the Bank of Nova Scotia for $33,000,000 in 2015 which was subsequently increased to $55,000,000 in 2016. At March 31, 2017, the Company owed $33,000,000 under the facility.

The Company's outstanding 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 bears 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 is payable on a quarterly basis beginning March 31, 2015, with the payment of the principal scheduled for June 1, 2018. The Company has the option to prepay the Crown Note beginning December 1, 2017. 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 is subordinate to the Scotia Facility. The note is classified as an other financial liability and recorded at amortized cost.

In June 2016, the Company amended the Crown Note to accommodate an increase to the Scotia Facility, noted below, as well as amended the financial covenants under the agreement to align with the Scotia Facility. The Company paid $174,060 (CAD$225,000) in fees to Crown in respect of the amendment.

The Company has entered into a cross currency swap which locks in the repayment of the Crown debt principal and interest at a Canadian dollar to U.S. dollar rate of 1.448.

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 has a maturity date of April 30, 2018, provided financing of up to $33,000,000. On June 15, 2016, the Company amended the Scotia Facility to provide financing of up to $55,000,000. In conjunction with this amendment, the Company paid $390,400 in fees to the Bank of Nova Scotia and legal counsel. As at March 31, 2017, the Company had drawn $33,000,000 on the amended Facility (December 31, 2016 - $29,000,000). The Facility is repayable in full at maturity, with scheduled principal repayments on a quarterly basis being made since March 31, 2016 based upon the outstanding balance of the Facility. The Facility is a revolving credit facility which the Company may terminate at any time without penalty. The credit facility bears interest at a floating rate based on the US prime rate, LIBOR or bankers’ acceptance rates plus an applicable margin. At March 31, 2017, the interest rate on the facility was LIBOR plus 2.75%. 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 for the quarter-ended March 31, 2017:

Financial Covenant	**Required Ratio**
Senior debt to EBITDA ratio	2.25:1.00
Total funded debt ratio	3.00:1.00
Fixed charge coverage ratio	1.30:1.00

The Company is in compliance with the above covenants at March 31, 2017

Cash provided by operating activities for the quarter ended March 31, 2017 was $7,991,021 compared to $5,524,822 for the same period in fiscal 2016.

The Company’s near-term cash requirements relate primarily to interest payments, quarterly principal payments in respect of the Scotia Facility, annual payments in respect of the deferred consideration in relation to the Austin acquisition, 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 Company’s current draw on its Scotia facility, quarterly principal payments are $1.75 million.

OUTSTANDING SHARE CAPITAL

As at March 31, 2017, there were 73,919,488 common shares issued and outstanding for a total of $53,734,537 in share capital.

As at March 31, 2017, there were 1,536,874 options outstanding at a weighted-average exercise price of $0.48 per share, of which 1,204,377 were exercisable into common shares at a weighted-average exercise price of $0.47 per share. As at March 31, 2017, there were 2,275,000 share units issued and outstanding.

As at April 26, 2017 there were 73,919,488 common shares issued and outstanding for a total of $53,734,537 in share capital. There are 1,536,874 options outstanding at a weighted-average exercise price of $0.48 per share, of which 1,276,252 are exercisable into common shares at a weighted average price of $0.47 per share. As at April 26, 2017, there are 2,275,000 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 March 31, 2017, the Board of Directors had not committed to proceed with any proposed asset or business acquisitions or dispositions that are not disclosed herein.

TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its wholly owned subsidiaries and entities over which the Company has control have been eliminated on consolidation. There have been no changes to the Company's identification of related parties, as defined under IAS 24, Related Party Disclosures.

For the three months ended March 31, 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 first 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 $674,135 and net income before tax of $31,375 from these acquisitions were included in our consolidated interim financial statements for the quarter ended March 31, 2017.

CRITICAL ACCOUNTING ESTIMATES

There were no significant changes to the Company's critical accounting estimates during the quarter ended March 31, 2017.

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, notes payable, deferred 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. For all other debt balances, the fair value of these financial instruments approximates carrying value; the Scotia Facility is a floating rate instrument and due to the subordinate nature of the Crown Note, management has assessed that the carrying value of this fixed rate instrument reflects fair value. 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 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 months ended March 31, 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)	Mar	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar
Adjusted operating EBITDA attributable to:									
Shareholders of the Company	7,719	10,281	9,122	7,054	5,914	6,797	5,758	5,775	5,093
Non-controlling interest	3,328	4,219	2,533	1,518	848	465	142	-	-
Total adjusted operating EBITDA	**11,047**	**14,500**	**11,655**	**8,572**	**6,762**	**7,263**	**5,900**	**5,775**	**5,093**
Amortization expense	(5,059)	(4,715)	(4,711)	(2,925)	(2,475)	(2,188)	(1,745)	(1,459)	(1,402)
Depreciation and related expense	(13)	(30)	(31)	(30)	(15)	(18)	(17)	(17)	(12)
Stock based compensation	(906)	(525)	(297)	(290)	(264)	(261)	(1,001)	(1,145)	(343)
Acquisition expenses	(127)	(58)	(21)	(286)	(62)	(123)	(221)	-	(16)
Impairment of inventory	-	-	-	-	-	-	(241)	-	-
Impairment of intangible assets	-	-	-	-	-	-	(390)	-	-
Operating income	**4,946**	**9,172**	**6,595**	**5,041**	**3,946**	**4,673**	**2,285**	**3,154**	**3,320**
Net finance income (expense)	(1,246)	(1,175)	(1,381)	(2,156)	289	(5,914)	(1,013)	(4,492)	(1,665)
Income tax (expense) recovery	(397)	(1,643)	(188)	(1,219)	(1,205)	1,541	442	661	270
Net and comprehensive income (loss)	**3,302**	**6,354**	**5,026**	**1,666**	**3,030**	**300**	**1,714**	**(677)**	**1,925**

Adjusted operating expenses

For the three months ended	2017	2016				2015			
(USD in thousands)	Mar	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar
Anesthesia services - adjusted operating expense	**9,469**	**9,492**	**8,794**	**6,158**	**5,323**	**5,061**	**4,023**	**3,460**	**2,984**
Amortization expense	5,056	4,715	4,711	2,925	2,475	2,188	1,745	1,459	1,403
Depreciation and related expense	2	1	3	2	2	4	3	2	-
Stock based compensation	149	120	38	27	17	12	13	10	2
Acquisition expenses	127	58	21	286	62	123	221	-	-
Impairment of intangible assets	-	-	-	-	-	-	390	-	-
Anesthesia services expense	**14,803**	**14,386**	**13,567**	**9,398**	**7,879**	**7,389**	**6,395**	**4,931**	**4,389**
Product sales - adjusted operating expense	**1,037**	**1,083**	**974**	**1,004**	**998**	**950**	**888**	**981**	**904**
Amortization expense	5	-	-	-	-	-	-	-	-
Depreciation and related expense	8	15	15	15	1	1	1	1	1
Stock based compensation	110	125	90	99	84	81	106	80	136
Impairment of inventory	-	-	-	-	-	-	241	-	-
Product sales expense	**1,160**	**1,223**	**1,079**	**1,118**	**1,083**	**1,031**	**1,236**	**1,062**	**1,041**
Corporate - adjusted operating expenses	**985**	**746**	**684**	**853**	**754**	**664**	**798**	**665**	**638**
Amortization expense	(4)	-	-	-	-	-	-	-	-
Depreciation and related expense	3	14	14	13	13	14	14	14	11
Stock based compensation	647	280	169	164	162	167	882	1,056	205
Acquisition expenses	-	-	-	-	-	-	-	-	16
Corporate expense	**1,630**	**1,040**	**867**	**1,030**	**929**	**845**	**1,694**	**1,735**	**870**
Total adjusted operating expense	**11,491**	**11,321**	**10,453**	**8,015**	**7,075**	**6,675**	**5,709**	**5,106**	**4,527**
Total operating expense	**17,593**	**16,649**	**15,514**	**11,546**	**9,891**	**9,265**	**9,325**	**7,728**	**6,300**

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

CRH MEDICAL CORPORATION

(Unaudited)

Three months ended March 31, 2017 and 2016

CRH MEDICAL CORPORATION

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

As at March 31, 2017 and December 31, 2016

	Notes	March 31, 2017	December 31, 2016
Assets			
Current assets:			
Cash and cash equivalents		$ 9,232,240	$ 9,507,004
Trade and other receivables		9,611,637	9,836,739
Current tax assets		1,537,103	1,551,140
Prepaid expenses and deposits		745,480	550,811
Inventories		410,752	300,760
Derivative asset	8	1,439,538	-
		22,976,750	21,746,454
Non-current assets:			
Property and equipment		315,510	324,198
Intangible assets	4	142,305,359	133,667,311
Derivative asset		-	1,261,298
Deferred tax assets		7,177,935	6,539,621
		149,798,804	141,792,428
Total assets		$ 172,775,554	$ 163,538,882
Liabilities			
Current liabilities:			
Trade and other payables		$ 3,232,985	$ 3,229,685
Employee benefits		312,729	226,874
Current tax liabilities		116,642	2,067,671
Notes payable and bank indebtedness	9	8,541,787	5,791,787
Deferred consideration		781,163	773,134
Short term advances	4	71,819	-
Member loan	4	60,000	-
		13,117,125	12,089,151
Non-current liabilities:			
Deferred consideration		3,162,064	3,133,694
Notes payable	9	39,798,640	38,138,774
Earn-out obligation	12	13,287,168	13,149,130
Deferred tax liability		144,687	101,846
		56,392,559	54,523,444
Equity			
Share capital	10	53,734,537	52,706,484
Contributed surplus		6,966,671	7,142,964
Accumulated other comprehensive loss		(66,772)	(66,772)
Retained earnings		2,275,011	733,155
Total equity attributable to shareholders of the Company		62,909,447	60,515,831
Non-controlling interest		40,356,423	36,410,456
Total equity		103,265,870	96,926,287
Total liabilities and equity		$ 172,775,554	$ 163,538,882

See accompanying notes to condensed consolidated interim financial statements.

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, except share and per share amounts)

Three months ended March 31, 2017 and 2016

	Notes		Three months ended March 31, 2017		March 31, 2016
Revenue:					
Anesthesia services	13	$	19,762,432	$	11,436,741
Product sales	13		2,776,315		2,400,110
			22,538,747		13,836,851
Expenses:					
Anesthesia services expense	5		14,803,271		7,878,632
Product sales expense	6		1,159,959		1,082,738
Corporate expense	7		1,629,915		929,432
			17,593,145		9,890,802
Operating income			4,945,602		3,946,049
Net finance income	11		(89,638)		(1,517,844)
Net finance expense	11		1,335,853		1,228,529
Income before tax			3,699,387		4,235,364
Income tax expense			397,269		1,204,879
Net and comprehensive income		$	3,302,118	$	3,030,485
Attributable to:					
Shareholders of the Company		$	1,541,856	$	2,955,548
Non-controlling interest			1,760,262		74,937
		$	3,302,118	$	3,030,485
Earnings per share attributable to shareholders					
Basic	10(d)	$	0.021	$	0.041
Diluted	10(d)	$	0.020	$	0.040
Weighted average shares outstanding:					
Basic			72,925,319		71,249,783
Diluted			75,702,637		73,988,230

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, except for number of shares)

Three months ended March 31, 2017 and 2016

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings (deficit)	Non-controlling interest	Total equity
Balance as at January 1, 2016	71,206,547	$ 51,066,044	$ 6,556,951	$ (66,772)	$ (9,831,078)	$ 9,249,220	$ 56,974,365
Total net and comprehensive income for the period	-	-	-	-	2,955,548	74,937	3,030,485
Transactions with owners, recorded directly in equity:							
Stock-based compensation expense	-	-	263,735	-	-	-	263,735
Common shares purchased on exercise of options	96,250	127,229	(74,084)	-	-	-	53,145
Exercise of broker warrants (note 10)	46,851	169,430	(48,335)	-	-	-	121,095
Distribution to non-controlling interest	-	-	-	-	-	(637,000)	(637,000)
Balance as at March 31, 2016	71,349,648	$ 51,362,703	$ 6,698,267	$ (66,772)	$ (6,875,530)	$ 8,687,157	$ 59,805,825
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	-	-	-	-	1,541,856	1,760,262	3,302,118
Transactions with owners, recorded directly in equity:							
Stock based compensation expense	-	-	906,374	-	-	-	906,374
Common shares purchased on exercise of options	60,000	21,815	(9,408)	-	-	-	12,407
Common shares issued on vesting of share units	1,113,549	1,006,238	(1,073,259)	-	-	-	(67,021)
Distribution to non-controlling interest	-	-	-	-	-	(4,011,581)	(4,011,581)
Acquisition of non-controlling interest (note 4)	-	-	-	-	-	6,197,286	6,197,286
Balance as at March 31, 2017	73,919,488	$ 53,734,537	$ 6,966,671	$ (66,772)	$ 2,275,011	$ 40,356,423	$ 103,265,870

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 month periods ended March 31, 2017 and 2016

	Notes	Three months ended March 31, 2017	March 31, 2016
Cash provided by (used in)			
Operating activities:			
Net and comprehensive income		$ 3,302,118	$ 3,030,485
Adjustments for:			
Depreciation and amortization of property, equipment and intangibles		5,068,951	2,490,587
Stock based compensation expense		906,374	263,735
Unrealized foreign exchange (gain)		(88,969)	(1,528,218)
Finance expense		1,335,853	1,228,529
Income tax expense		397,269	1,204,879
Operating activity before changes in operating assets and liabilities		10,921,596	6,689,997
Taxes paid		(2,940,171)	(1,158,109)
Change in trade and other receivables		225,102	796,146
Change in prepaid expenses and deposits		(194,669)	25,413
Change in inventories		(109,992)	(1,270)
Change in trade and other payables		3,300	(840,162)
Change in employee benefits		85,855	12,807
Cash provided by operating activities		7,991,021	5,524,822
Financing activities			
Proceeds on member loan	4	60,000	-
Proceeds on working capital advance	4	71,819	-
Repayment of loan		-	(166,194)
Proceeds on bank indebtedness	9	4,000,000	-
Repayment of notes payable and bank indebtedness		-	(1,000,000)
Repayment of notes payable and bank indebtedness interest		(829,834)	(683,136)
Distribution to non-controlling interest		(4,011,581)	(637,000)
Proceeds from the exercise of broker warrants		-	121,095
Proceeds from the issuance of shares relating to stock based compensation		(54,614)	53,145
Cash provided by (used in) financing activities		(764,210)	(2,312,090)
Investing activities			
Acquisition of property and equipment		(9,415)	(94,031)
Acquisition of anesthesia services provider	4	(7,491,610)	-
Cash used in investing activities		(7,501,025)	(94,031)
Effects of foreign exchange on cash and cash equivalents		(550)	6,211
Increase (decrease) in cash and cash equivalents		(274,764)	3,124,912
Cash and cash equivalents, beginning of period		9,507,004	3,572,344
Cash and cash equivalents, end of period		$ 9,232,240	$ 6,697,256

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 April 26, 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, determining the fair value of derivative assets, 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.

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.

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	$4,089,791
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, being purchase consideration	$ 4,089,791	$ 3,401,819	$ 7,491,610
Non-controlling interest	3,929,407	2,267,879	6,197,286
	$ 8,019,198	$ 5,669,698	$ 13,688,896
Assets and liabilities acquired:			
Exclusive professional services agreements	8,019,198	$ 5,669,698	$ 13,688,896
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	$ 8,019,198	$ 5,669,698	$ 13,688,896
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. 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 $3,929,407 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 has provided a working capital advance to DDAB totaling $71,819 at March 31, 2017.

OGAA

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

In conjunction with the acquisition, both the Company and the non-controlling interest shareholder contributed loans of $90,000 and $60,000, respectively. The 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 months ended March 31, 2017, the above noted acquisitions contributed revenue and net earnings before tax as follows:

4. Business combinations (continued):

	Three months ended March 31, 2017		
	DDAB	OGAA	Total
Revenue	$ 567,687	$ 106,448	$ 674,135
Net earnings before tax	$ 16,555	$ 14,820	$ 31,375
Amortization	$ 297,007	$ 47,247	$ 344,254

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 $23.4 million and net income before tax would have been approximately $3.8 million.

Pro Forma Information (unaudited)	Three months ended March 31, 2017		
	DDAB	OGAA	Total
Revenue	$ 851,531	$ 638,688	$ 1,490,219
Net earnings before tax	$ 24,833	$ 88,920	$ 113,753
Amortization	$ 450,511	$ 283,485	$ 733,996

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

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

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

4. Business combinations (continued):

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

	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.

5. Anesthesia services expense:

For the three month periods ended March 31:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Employee related	$ 6,389,420	$ 3,400,868
Depreciation and amortization	5,057,576	2,477,173
Bad debt expense	1,170,096	652,606
Office related	1,512,519	980,371
Acquisition expense	126,881	61,850
Medical supplies	172,682	164,169
Stock based compensation	149,391	16,763
Professional fees	102,609	85,072
Travel and entertainment	65,420	26,653
Insurance	56,677	13,107
	$ 14,803,271	$ 7,878,632

6. Product sales expense:

For the three month periods ended March 31:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Employee related	$ 413,912	$ 358,522
Product cost and support	479,171	486,490
Professional fees	83,198	73,690
Office related	61,485	60,398
Stock based compensation	110,459	83,880
Insurance	5,106	13,721
Depreciation and amortization	12,521	624
Foreign exchange	(5,893)	5,413
	$ 1,159,959	$ 1,082,738

7. Corporate expense:

For the three month periods ended March 31:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Employee related	$ 441,785	$ 323,331
Professional expenses	247,115	153,233
Corporate	100,841	109,646
Stock based compensation	646,524	163,092
Travel and entertainment	50,791	56,097
Office related	44,438	41,733
Insurance	75,132	60,962
Depreciation and amortization	(1,146)	12,790
Foreign exchange	24,435	8,548
	$ 1,629,915	$ 929,432

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 at 1.448. Under the cross currency swap, Scotia is committed to payments on the principal amount of the Crown Note of CAD$22,500,000 at a rate of 12% while the Company is committed to payments on the principal amount of the Crown Note of $15,538,674 at 13.17%. Interest rate payments are calculated quarterly with payment due on the last business day of each quarter.

The Company accounts for the cross currency swap as a derivative financial instrument at fair value through profit or loss and has recorded the fair value of the instrument on the balance sheet at March 31, 2017 with changes in the fair value of the instrument recorded through earnings in the period of $178,240. The cross currency swap agreement matures on January 31, 2018.

9. Notes payable:

March 31, 2017	Crown Note	Scotia Facility	Total
Current portion	$ -	8,541,787	$ 8,541,787
Non-current portion	15,565,991	24,232,649	39,798,640
Total loans and borrowings	$ 15,565,991	32,774,436	$ 48,340,427

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

Norrep Credit Opportunities Fund II, LP ("Crown Note")

On December 1, 2014, the Company entered into an agreement to borrow funds in the form of a subordinated note payable from Norrep Credit Opportunities Fund II, LP. At inception, the original amount of the note payable was CAD$22,500,000 (USD$19,863,000). The note bears 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 is 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 is subordinate to the Scotia Facility. The note is classified as an other financial liability and recorded at amortized cost.

On June 15, 2016, the Company amended the Crown Note to accommodate an increase to the Scotia Facility as well as amended the financial covenants under the agreement to align with the Scotia Facility. The Company paid $174,060 (CAD$225,000) in fees to Crown in respect of the amendment.

9. Notes payable (continued):

The Bank of Nova Scotia ("Scotia Facility")
On November 24, 2015, the Company entered into a credit facility with the Bank of Nova Scotia. The facility, which has a maturity date of April 30, 2018, provided financing of up to $33,000,000. On June 15, 2016, the Company amended the Scotia Facility to provide financing of up to $55,000,000. In conjunction with this amendment, the Company paid $390,400 in fees to the Bank of Nova Scotia and legal counsel. As at March 31, 2017, the Company had drawn $33,000,000 on the amended Facility (December 31, 2016 - $29,000,000). The Facility is repayable in full at maturity, with scheduled principal repayments on a quarterly basis beginning March 31, 2016 based upon the outstanding balance of the Facility. The Facility is a revolving credit facility which the Company may terminate at any time without penalty. The credit facility bears interest at a floating rate based on the US prime rate, LIBOR or bankers' acceptance rates plus an applicable margin. At March 31, 2017, the interest rate on the facility was LIBOR plus 2.75%. 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 for the quarter-ended March 31, 2017:

Financial Covenant	Required Ratio
Senior debt to EBITDA ratio	2.25:1.00
Total funded debt ratio	3.00:1.00
Fixed charge coverage ratio	1.30:1.00

The Company is in compliance with the above covenants as at March 31, 2017.

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

	Minimum Principal
At March 31, 2017	
Not later than one year	$ 8,750,000
Between one and five years	$ 39,788,500
	$ 48,538,500

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 quarter ended March 31, 2017.

On March 29, 2016, the Company issued 46,851 common shares on the exercise of 46,851 broker warrants issued in connection with the Company's bought deal equity offering on March 25, 2015. Gross proceeds on exercise were $121,095 (CAD$159,293) and the fair value of the instruments exercised was $48,335 (CAD$60,502).

(b) Share unit plan:

In June 2014, the shareholders of the Company approved a Share Unit Plan. Employees, directors and eligible consultants of the Company and its designated subsidiaries are eligible to participate in the Share Unit Plan. In accordance with the terms of the plan, the Company will approve those employees, directors and eligible consultants who are entitled to receive share units and the number of share units to be awarded to each participant. Each share unit awarded conditionally entitles the participant to receive one common share of the Company upon attainment of the share unit vesting criteria. The vesting of share units is conditional upon the expiry of time-based vesting conditions, 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.

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

	Time based share units	Performance based share units
Outstanding, January, 2016	509,000	1,000,000
Issued	-	-
Vested	-	-
Forfeited	(15,000)	-
Expired	-	-
Outstanding, March 31, 2016	494,000	1,000,000
Outstanding, January 1, 2017	1,068,000	2,350,000
Issued	-	-
Vested	(123,000)	(1,000,000)
Forfeited	(20,000)	-
Expired	-	-
Outstanding, March 31, 2017	925,000	1,350,000

10. Share capital (continued):-

(b) Share unit plan (continued):

During the quarter ended March 31, 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 113,549 in respect of 123,000 time based share units which vested during the quarter.

During the quarter ended March 31, 2017, the Company recognized $897,996 (2016 - $231,399), in compensation expense in relation to the granting and vesting of share units.

(c) Stock option plan:

During the quarter ended March 31, 2017, the Company recognized $8,378 (2016 - $32,336) in compensation expense in relation to the granting and vesting of stock options.

(d) Earnings per share:

The calculation of basic earnings per share for the three months ended March 31, 2017 and 2016 is as follows:

	Three months ended March 31					
	2017			2016		
	Net earnings	Weighted average number of common shares outstanding	Per share amount	Net earnings	Weighted average number of common shares outstanding	Per share amount
Net earnings attributable to shareholders:						
Earnings per common share:						
Basic	$ 1,541,856	72,925,319	$ 0.021	$ 2,955,548	71,249,783	$ 0.041
Share options		1,468,131			2,440,608	
Share units		1,309,187			198,176	
Broker warrants		-			99,663	
Diluted	$ 1,541,856	75,702,637	$ 0.020	$ 2,955,548	73,988,230	$ 0.040

For the three months ended March 31, 2017, 112,173 options (2016 – 483,496) and 1,914,602 share units (2016 – 1,300,439) were excluded from the diluted weighted average number of common shares calculation.

11. Net finance expense

Recognized in earnings in the three month periods ended March 31:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Finance income:		
Foreign exchange gain	$ (89,638)	$ (1,517,844)
Total finance income	$ (89,638)	$ (1,517,844)
Finance expense:		
Interest and accretion expense on borrowings	$ 1,086,675	$ 865,273
Accretion expense on earn-out obligation and deferred consideration	159,574	135,555
Amortization of deferred financing fees	74,274	48,597
Net change in fair value of financial liabilities at fair value through earnings	14,863	179,104
Other	467	-
Total finance expense	$ 1,335,853	$ 1,228,529
Net finance (income) expense	$ 1,246,215	$ (289,315)

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

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

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

12. Financial instruments (continued):

The Company's derivative asset is carried at fair value as disclosed in note 8. The fair value of the derivative asset is determined using models to estimate the present value of expected future cash flows. The derivative asset is considered a Level 2 instrument because, while observable inputs are available, they are not quoted in an active market.

The Company's earn-out obligation is measured at fair value on a recurring basis using significant unobservable inputs (Level 3). The Earn-Out Obligation relates to the GAA acquisition in 2014. The total purchase price under the acquisition included an additional $14,655,000 payable within 4.5 years after closing based on the achievement of certain financial performance targets of GAA. As at March 31, 2017, the Company had estimated that potential payments in respect of the earn-out obligation will range from $11,981,000 to $14,655,000. 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 months ended March 31, 2017, the Company revised its assumptions underlying the discount rate used in the calculation of the fair value of the earn-out obligation to account for changes in the underlying credit risk of the Company. The downward adjustment of the discount rate from 3.80% at December 31, 2016 to 3.73% at March 31, 2017 resulted in an increase of $14,863 to the fair value of the earn-out obligation. The impact of this adjustment was recorded through finance expense in the period with $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 $209,789. During the three months ended March 31, 2017, the Company recorded accretion expense of $123,175 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	123,175
Fair value adjustment	14,863
Balance as at March 31, 2017	$13,287,168

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 months ended March 31, 2017 and 2016 are as follows:

	Three months ended	
Revenue:	March 31, 2017	March 31, 2016
Canada and other	$ 61,196	$ 59,823
United States	22,477,551	13,777,028
Total	$ 22,538,747	$ 13,836,851

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

	2017	**2016**
Property and equipment:		
Canada	$ 301,136	$ 316,145
United States	14,374	8,053
Total	$ 315,510	$ 324,198
Intangible assets:		
Canada	$ 37,062	$ 31,934
United States	142,268,297	133,635,377
Total	$ 142,305,359	$ 133,667,311
Other assets:		
Canada	$ 1,439,358	$ 1,261,298
United States	-	-
Total	$ 1,439,358	$ 1,261,298

13. Segmented information (continued):

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

	Three months ended March 31, 2017			
	Anesthesia services	**Product sales**	**Other**	**Total**
Revenue	$ 19,762,432	$ 2,776,315	$ -	$ 22,538,747
Operating costs	14,803,271	1,159,959	1,629,915	17,593,145
Operating income (loss)	$ 4,959,161	$ 1,616,356	$ (1,629,915)	$ 4,945,602

	Three months ended March 31, 2016			
	Anesthesia services	**Product sales**	**Other**	**Total**
Revenue	$ 11,436,741	$ 2,400,110	$ -	$ 13,836,851
Operating costs	7,878,632	1,082,738	929,432	9,890,802
Operating income (loss)	$ 3,558,109	$ 1,317,372	$ (929,432)	$ 3,946,049