CRH Medical Corporation

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Year Ended December 31, 2015
Financial Report

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

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2015

The following discussion and analysis should be read in conjunction with CRH Medical Corporation's (the "Company" or "CRH") audited annual financial statements for the years ended December 31, 2015 and 2014. The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

Unless otherwise specified, all financial data is presented in United States dollars. This management discussion and analysis is as of February 24, 2016.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Information included or incorporated by reference in this report may contain forward-looking statements. This information may involve known and unknown risks, uncertainties, and other factors which may cause our actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "plan," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology. Readers are cautioned regarding statements discussing profitability; growth strategies; anticipated trends in our industry; our future financing plans; and our anticipated needs for working capital. Forward looking statements in this report include statements regarding additional acquisitions, increasing revenue and operating EBITDA, continued growth of our business and leveraging our capabilities. Actual events or results may differ materially from those discussed in forward-looking statements. There can be no assurance that the forward-looking statements currently contained in this report will in fact occur. The Company bases its forward-looking statements on information currently available to it, 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 information reflects current expectations of management regarding future events and operating performance as of the date of this document. Such information involves significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in forward-looking information, including, without limitation: our need for additional financing and our estimates regarding our capital requirements, future revenues and profitability; unfavourable economic conditions could have an adverse effect on our business; risks related to the Company's credit facilities; the policies of health insurance carriers may affect the amount of revenue the Company receives; our ability to successfully market and sell our products and services; our estimates of the size of the potential markets for our products and services; we may be subject to competition and technological risk which may impact the price and amount of product we can sell and nature of services we can provide; our ability to and the cost of compliance with extensive existing regulation and any changes or amendments thereto; changes within the medical industry and third-party reimbursement policies and our estimates of associated timing and costs with the same; changes in key United States federal or state laws, rules, and regulations; our ability to establish, maintain and defend intellectual property rights; risks related to U.S. antitrust regulations; risks related to record keeping and confidentiality by our affiliated physicians; our ability to recruit and retain qualified physicians and other service providers to provide our services; our ability to enforce non-competition covenants of any departed physicians and other service providers; risks related to corporate practice of medicine and our ability to renew and maintain agreements with anesthesiologists and other contractors; risks related to our ability to renegotiate, renew or replace services agreements under which we provide anesthesia services; risks related to changes in regulations that would necessitate adapting or re-negotiating our existing operating agreements; our ability and forecasts of expansion and the Company's management of anticipated growth; our senior management has been key to our growth and we may be adversely affected if we are unable to retain, conflicts of interest develop with or we lose any key member of our senior management; risks associated with manufacture of our products and our economic dependence on suppliers; changes in the industry and the economy may affect the Company's business; risks related to the competitive nature of the medical industry; evolving regulation of corporate governance and public disclosure may result in additional corporate expenses; adverse events relating to our product or services could result in risks relating to product liability, medical malpractice, other legal claims, insurance, product recalls and other liabilities; risks associated with use of our products in unapproved circumstances; various risks associated with legal, regulatory or investigative proceedings; health and safety risks are intrinsic within our industry; our ability to successfully identify, evaluate and complete future transactions; anti-takeover provisions create risks related to lost opportunities; we may not continue to attract gastroenterologists and other licensed providers to purchase and use the CRH O'Regan System or to provide our services; risks associated with the trading of our common shares on a public marketplace; risks related to adverse movements in foreign currency exchange rates; and risks related to maintaining our foreign private issuer status.

OVERVIEW

CRH Medical Corporation is a North American company focused on providing physicians with innovative products and services for the treatment of gastrointestinal diseases. The Company's product distribution strategy focuses on physician education, patient outcomes, and patient awareness. The Company's first product, the CRH 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. In 2014, CRH acquired a full service gastroenterology anesthesia company, Gastroenterology Anesthesia Associates, LLC ("GAA"), which provides anesthesia services for patients undergoing endoscopic procedures and has complemented this acquisition with further acquisitions of anesthesia providers completed during the first, third and fourth quarters of 2015. Anesthesia assisted endoscopies make these procedures more comfortable for patients and allows gastroenterologists to perform more procedures. CRH plans to leverage the capabilities it acquired through GAA to consolidate the highly fragmented gastroenterology anesthesia provider business. The Company's goal is to establish CRH as the premier provider of innovative products and essential services to gastroenterologists throughout the United States.

The Company has financed its cash requirements primarily from revenues generated from the sale of its product directly to physicians, anesthesia sales, 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 anesthesia businesses. 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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RECENT EVENTS

John's Creek Anesthesia Associates LLC ("John's Creek") – December 2015

In December 2015, a subsidiary of the Company entered into an asset purchase agreement to purchase certain assets of John's Creek Anesthesia, LLC ("John's Creek"), an anesthesia services provider in the Southeastern United States. The total purchase price under the asset purchase agreement was $1,200,000 and was paid via cash.

Macon Gastroenterology Anesthesia Associates LLC ("MGAA") – December 2015

In December 2015, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire 65% of the ownership interest in Macon Gastroenterology Anesthesia Associates LLC ("MGAA"), an anesthesia services provider in the Southeastern United States. The total purchase price under the asset contribution and exchange agreement was $4,670,000 and was paid via cash.

US Listing – September 2015

In September 2015, the Company's common shares were approved for listing on the NYSE MKT, LLC (the "NYSE MKT") subject to continued satisfaction of listing requirements. The Company's common shares began trading on the NYSE MKT under the ticker "CRHM" on September 3, 2015. The Company's common stock is dual listed and will continue to trade on the TSX under its existing symbol "CRH."

Knoxville Gastroenterology Anesthesia Associates LLC ("KGAA") – September 2015

In September 2015, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire 51% of the ownership interest in Knoxville Gastroenterology Anesthesia Associates LLC ("KGAA"), an anesthesia services provider in the Southeastern United States. The total purchase price under the asset contribution and exchange agreement was $6,818,352 and was paid via a combination of cash and common shares.

Associates in Digestive Health LLC ("ADH") – August 2015

In August 2015, a subsidiary of the Company entered into an asset purchase agreement to purchase certain assets of Associates in Digestive Health LLC ("ADH"), an anesthesia services provider in the Southeastern United States. The total purchase price under the asset purchase agreement was $6,600,000 and was paid via cash.

Bought Deal Equity Offering – March 2015

On March 25, 2015, the Company closed a bought deal equity offering and over-allotment option of 7,000,000 and 1,050,000 common shares, respectively, at a price of $2.72 (CAD$3.40) per common share for gross proceeds of $21,865,893 (CAD$27,370,000). In connection with the offering, the underwriters were paid a 6% commission totaling approximately $1,311,954 (CAD$1,642,200). The Company also issued 241,500 Broker Warrants with a total value of $249,149 to the underwriters and incurred additional share issuance costs of $299,230 (CAD$375,059) in relation to the offering. As of December 31, 2015, 140,795 of the Broker Warrants were exercised.

The proceeds of the offering were used in part to reduce corporate indebtedness and the balance will be used to fund future acquisitions, as well as for working capital and general corporate purposes.

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 Operating EBITDA and Operating expenses – adjusted. 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 Operating EBITDA as operating earnings before interest, taxes, depreciation and related expenses, amortization, stock based compensation, acquisition related expenses and asset impairment charges. Operating EBITDA is presented on a basis consistent with the Company's internal management reports. The Company discloses 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 Operating expenses – adjusted as operating expenses before expenses related to acquisitions, stock based compensation, depreciation and related expenses, amortization and asset impairment charges. Operating expenses – adjusted is presented on a basis consistent with the Company's internal management reports. The Company discloses Operating expenses – adjusted 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 Operating expenses – adjusted by segment.

Operating EBITDA and Operating expenses – adjusted 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.

SELECTED FINANCIAL INFORMATION

		2015		2014		2013
Anesthesia services revenue	$	36,496,035	$	3,386,073	$	-
Product sales revenue		9,552,445		8,598,097		7,682,628
Total revenue		**46,048,480**		**11,984,170**		**7,682,628**
Operating expenses – adjusted[1]						
Anesthesia services		15,528,409		1,255,193		-
Product sales		3,723,633		3,868,830		4,012,358
Corporate		2,764,803		2,164,053		1,53,707
Total operating expenses – adjusted[1]		**22,016,845**		**7,288,076**		**5,566,065**
Operating EBITDA[2] – non-controlling interest[3]		607,289		-		-
Operating EBITDA[2] - shareholders of the Company		**23,424,346**		**4,696,094**		**2,116,563**
Operating EBITDA[2] - total		**24,031,635**		**4,696,094**		**2,116,563**
Operating income		13,431,186		2,977,893		1,799,795
Net and comprehensive income	**$**	**3,259,828**	**$**	**1,498,153**	**$**	**2,492,646**
Attributable to:						
Shareholders of the Company		3,076,191		1,498,153		2,492,646
Non-controlling interest[(3)]		183,637		-		-
Operating EBITDA per share attributable to shareholders:						
Basic	$	0.345	$	0.096	$	0.043
Diluted	$	0.331	$	0.094	$	0.043
Earnings per share attributable to shareholders:						
Basic	$	0.045	$	0.031	$	0.051
Diluted	$	0.043	$	0.030	$	0.051
Total assets	$	104,495,278	$	78,964,290	$	8,633,372
Total non-current liabilities	$	39,389,376	$	46,950,391	$	-
Total liabilities	$	47,520,913	$	60,176,928	$	353,253

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

[2] Operating EBITDA: This is a non-IFRS measure defined as operating income before interest, taxes, depreciation and related expenses, 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 – year ended December 31, 2015

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

Revenue

Revenues for the year ended December 31, 2015 were $46,048,480 compared to $11,984,170 for the year ended December 31, 2014. The increase in revenues is mainly attributable to the Company's anesthesia service acquisitions completed throughout 2015 and in the fourth quarter of 2014, with incremental revenue contributions from these acquisitions of $33,109,962 during the year ended December 31, 2015. This increase is in addition to the increase in product sales of $954,348 during the year ended December 31, 2015.

Anesthesia Services Revenue

Revenues from anesthesia services for the year ended December 31, 2015 were $36,496,035. The Company's first anesthesia acquisition was in the fourth quarter of 2014, with additional acquisitions in the first, third and fourth quarters of 2015. As a result, fiscal 2015 is not comparable to fiscal 2014. The new transactions in the first, third and fourth quarters of 2015 contributed revenue of $4,678,558. During the year, the anesthesia services segment serviced 71,447 patient cases.

The revenue contribution in the year from the Company's acquisition of GAA in December 2014, was $31,315,824. At December 31, 2014, the Company estimated 2014 pro forma revenues from the GAA acquisition of $34,520,315. The pro-forma revenues were estimated based on the best available information at the time and included estimates involving bad debt as well as net realizable revenue by payor. In normalizing this revenue, management has updated the 2014 pro forma estimates to reflect actual bad debt expense, revenue by payor and to also reflect significant rate changes effective prior to the acquisition. Normalized for these factors, the 2014 pro forma estimate of GAA revenues is $30,047,516 compared to GAA revenue of $31,315,824 for the year ended December 31, 2015. The normalization of 2014 revenues has had no impact on management's estimate of the GAA earn-out liability recorded on the balance sheet at December 31, 2015.

The table below summarizes our approximate payor mix as a percentage of service volume for fiscal 2015.

Payor	Year ended December 31, 2015
Medicare	27.2%
Medicaid	4.1%
Commercial and other	68.7%
Total	**100.0%**

In the future, the Company expects anesthesia services revenue to continue to increase primarily through acquisitions and to increase via organic growth.

Product Sales Revenue

Revenues from product sales for the year ended December 31, 2015 were $9,552,445 compared to $8,598,097 for the year ended December 31, 2014. The 11% increase in product sales is the result of the continuing successful execution of the Company's direct to physician program that provides physicians the ability to purchase our hemorrhoid banding technology, treatment protocols, marketing and operational experience. As of December 31, 2015 the Company has trained 2,175 physicians to use the O'Regan System, representing 811 clinical practices. This compares to 1,916 physicians trained, representing 701 clinical practices, as of December 31, 2015.

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

Total operating expenses - adjusted

For the year ended December 31, 2015, total adjusted operating expenses were $22,016,845 compared to $7,288,076 for 2014. The $14,728,769 increase is primarily related to adjusted operating expenses for anesthesia services as the prior year only contains one month of anesthesia activity for the GAA acquisition acquired in December 2014.

Anesthesia services adjusted operating expenses for the year ended December 31, 2015 were $15,528,409. Anesthesia services expenses primarily include labor related cost for the certified registered nurse anesthetists, the medical director, 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 the first, third and fourth quarters of 2015. As a result, 2015 is not comparable to 2014.

Product sales adjusted operating expenses for the year ended December 31, 2015 were $3,723,633 compared to $3,868,830 for 2014. The slight decrease in expenses compared to 2014 is a reflection of cost savings associated with reduced professional fees and lowered employee related expenses as a result of the decline in the Canadian dollar, offset by the additional product cost and support associated with a 11% increase in product sales. Product sales expenses primarily include employee wages, product cost and support, marketing programs, office expenses, professional fees, and insurance.

Corporate adjusted operating expenses for the year ended December 31, 2015 were $2,764,803 compared to $2,164,053 for 2014. This reflects a growth in expenses in 2015 of $600,750. The growth in corporate expenses is primarily the result of an increase in professional fees, travel and entertainment costs, and insurance and, in general, is reflective of the additional activities incurred in support of the Company's expanded service offering and investor base. Contributing to the increase in professional fees are additional professional fees incurred in relation to the Company's listing on the NYSE of $244,138 during the year.

Operating EBITDA

Operating EBITDA attributable to shareholders of the Company for the year ended December 31, 2015 was $23,424,346, an increase of $18,728,251 from 2014. The increase in Operating EBITDA is primarily a reflection of the Company's newly acquired anesthesia service providers offset by a net increase in product and corporate operating expenses.

Operating EBITDA attributable to non-controlling interest was $607,289 for the year ended December 31, 2015. This comprises the non-controlling interests' share of revenues of $1,118,103 and adjusted operating expenses of $510,814.

Total operating EBITDA was $24,031,635 for the year ended December 31, 2015, an increase of $19,335,541 from the prior year.

Operating Income

Operating income for the year ended December 31, 2015 was $13,431,186 compared to $2,977,893 for 2014, an increase of $10,453,293.

Contributing to the improved operating income during the year is the increase in total Operating EBITDA of $19,335,541, less incremental costs related to the amortization of acquired professional service agreements of $6,336,958, an increase in stock based compensation expense of $2,387,213, asset impairment and write-offs in the period totaling $630,639, offset by a reduction in acquisition expenses of $484,369. During the quarter ended September 30, 2015, the Company recorded an impairment charge of $389,693 in relation to the AHP acquisition as a result of the closure of one of the endoscopy centers to which the Company provided anesthesia services under a professional services agreement. In addition, the Company wrote-off certain inventories totaling $240,946 during the same quarter.

Anesthesia operating income for the year was $13,392,542, an increase of $11,719,731 from the preceding year. The increase is reflective of the addition of the Company's anesthesia acquisitions in the fourth quarter of 2014 along with the further acquisitions completed in the first, third and fourth quarters of 2015.

Product operating income for the year was $5,183,301, an increase of $556,134 from the prior year. The increase is a result of the increased revenue in the year of $954,348, offset by additional expenses relating to the write-off of inventories in the year as well as an increase in stock base compensation expense when compared to the prior year.

The GAA acquisition in December 2014 was financed by cash on hand along with senior and subordinated credit facilities from Knight Therapeutics Inc. and affiliates of Crown Capital Partners Inc., in the amounts of $30,000,000 and CAD$22,500,000 (USD$19,863,000) respectively, as well as a loan from The Bloom Burton Healthcare Structured Lending Fund II and a private placement of the Company's common shares. In November 2015, certain of the debt (the Knight Note and Bloom Burton Facility) was refinanced via a revolving credit facility in the amount of $33,000,000 with the Bank of Nova Scotia (the Scotia Facility).

As a result of the Company's debt facilities, the Company has recorded net finance expense of $13,084,328 during the year, compared to net finance expense of $1,623,459 in 2014. Net finance expense is comprised of both interest and other debt related expenses, as well as foreign exchange gains and losses on the Crown debt which is denominated in Canadian dollars. In the year ended December 31, 2015, the Company recorded an exchange gain of $2,737,964 in relation to the Crown note. Excluding the impact of the exchange gain in the year, the finance expense for the year was $15,822,292. Finance expense, excluding fair value adjustments and exchange gains, was $10,090,998. The fair value adjustments recorded in the year resulted from changes in estimates underlying the Knight facility and the Company's earn-out obligation. For the year ended December 31, 2015, finance expense also includes expenses relating to the extinguishment of the Knight Note and the Bloom Burton facilities, totaling $1,817,509. For further information, refer to the Financial Instruments section of this document.

Cash interest paid in the year ended December 31, 2015 was $5,903,690. This includes the payment of interest owing on the Knight Note and Bloom Burton facility at time of extinguishment.

Income tax recovery

For the year ended December 31, 2015, the Company recorded an income tax recovery of $2,912,970 compared to an income tax recovery of $143,719 for 2014. The recovery is a reflection of the recognition and utilization of previously unrecognized brought forward losses in the US as a result of the income generated by the Company's anesthesia services segment. The Company estimates that it will fully utilize its brought forward tax losses in early 2016.

Net and comprehensive income

For the year ended December 31, 2015, the Company recorded net and comprehensive income attributable to shareholders of the Company of $3,076,191 compared to a net and comprehensive income attributable to shareholders of $1,498,153 for fiscal 2014. The increase in earnings compared to 2014 is reflective of anesthesia services' contribution to earnings during the quarter, offset by increases in finance expense and stock based compensation in conjunction with impairment charges and acquisition expenses in the period.

Net and comprehensive income attributable to non-controlling interest was $183,637 for the year ended December 31, 2015.

RESULTS OF OPERATIONS – three months ended December 31, 2015

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 December 31, 2015 were $13,937,531 compared to $5,746,388 for the three months ended December 31, 2014. The increase in revenues is mainly attributable to the Company's anesthesia service acquisitions completed throughout 2015 and in the fourth quarter of 2014, with total incremental revenue contributions from these acquisitions of $7,943,626 in the quarter. This increase is in addition to the increase in product sales of $247,517 during the fourth quarter of 2015.

The fourth quarter of the year is traditionally the highest revenue generating quarter of the year due to the impact of seasonality.

Anesthesia Services Revenue

Revenues from anesthesia services for the quarter ended December 31, 2015 were $11,329,699. The Company's first anesthesia acquisition was in December 2014, with additional acquisitions in the first, third and fourth quarters of 2015. As a result, the fourth quarter of 2015 is not comparable to the fourth quarter of 2014. During the quarter, the anesthesia services segment serviced 24,924 patient cases.

Anesthesia services revenue increased by $2,134,336 from the third quarter of 2015. This is predominantly due to the impact of acquisitions completed in the third quarter of 2015 but is also a reflection of seasonality experienced in the fourth quarter of the year. The fourth quarter of 2015 represents 26.4% of the anesthesia revenue for the year.

Product Sales Revenue

Revenues from product sales for the quarter ended December 31, 2015 were $2,607,832 compared to $2,360,315 for the quarter ended December 31, 2014. The 10% increase in product sales is the result of the continuing successful execution of the Company's direct to physician program that provides physicians the ability to purchase our hemorrhoid banding technology, treatment protocols, marketing and operational experience and seasonality.

As of December 31, 2015 the Company has trained 2,175 physicians to use the O'Regan System, representing 811 clinical practices.

Total operating expenses - adjusted

For the quarter ended December 31, 2015, total adjusted operating expenses were $6,674,324 compared to $3,076,440 for the fourth quarter of 2014. The $3,597,884 increase is primarily related to adjusted operating expenses for anesthesia services as the prior year's fourth quarter only contains one month of anesthesia activity for the GAA acquisition acquired in December 2014.

Anesthesia services adjusted operating expenses for the quarter ended December 31, 2015 were $5,061,037. Anesthesia services expenses primarily include labor related cost for the certified registered nurse anesthetists, the medical director, medical drugs and supplies, and billing and management related expenses. The Company's first anesthesia acquisition was in December 2014, with further acquisitions completed in the first, third and fourth quarters of 2015. As a result, 2015 is not comparable to 2014.

Product sales adjusted operating expenses for the quarter ended December 31, 2015 were $949,743 compared to $977,787 for 2014. The slight decrease in expenses compared to 2014 is a reflection of cost savings associated with reduced professional fees and the impact of the foreign exchange rates on costs incurred in Canadian dollars.

Corporate adjusted operating expenses for the quarter ended December 31, 2015 were $663,544 compared to $843,460 for 2014. This decrease in expenses is reflective of a decrease in employee related costs and professional fees when compared to the fourth quarter of 2014.

Operating EBITDA

Operating EBITDA attributable to shareholders of the Company for the quarter ended December 31, 2015 was $6,797,393, an increase of $4,127,445 from 2014. The increase in Operating EBITDA is primarily a reflection of the Company's newly acquired anesthesia service providers and decreases product and corporate operating expenses in the quarter.

Operating EBITDA attributable to non-controlling interest was $465,814 for the quarter ended December 31, 2015. This comprises the non-controlling interests' share of revenues of $899,162 and adjusted operating expenses of $433,348.

Total operating EBITDA was $7,263,207 for the quarter ended December 31, 2015, an increase of $4,593,259 from the fourth quarter of 2014.

Operating Income

Operating income for the quarter ended December 31, 2015 was $4,672,629 compared to $1,284,626 for the fourth quarter of 2014, an increase of $3,388,003.

Contributing to the improved operating income during the quarter is the increase in total Operating EBITDA of $4,593,260, less additional costs related to the amortization of acquired professional service agreements of $1,730,312, an increase in stock based compensation expense of $191,131, offset by a reduction in acquisition expenses of $721,905.

Anesthesia operating income for the quarter was $3,940,943, an increase of $2,268,132 from the fourth quarter of 2014. This is reflective of the Company's first anesthesia acquisition in December 2014 along with additional acquisitions in the first, third and fourth quarters of 2015.

Product operating income for the quarter was $1,576,450, an increase of $216,479 from the fourth quarter of 2014. The increase is a result of the increased revenue in the quarter of $247,517, offset by a slight increase in product expenses relating to stock based compensation.

As a result of the Company's debt facilities, the Company has recorded net finance expense of $5,914,145 during the quarter, compared to net finance expense of $1,623,459 in the fourth quarter of 2014. Net finance expense is comprised of both interest and other debt related expenses, as well as foreign exchange gains and losses on the Crown debt which is denominated in Canadian dollars. In the quarter ended December 31, 2015, the Company recorded an exchange gain of $543,122 in relation to the Crown note, comparable to the exchange gain of $410,208 recorded in the fourth quarter of 2014. Excluding the impact of the exchange gain in the quarter, the finance expense for the quarter was $6,457,267. Finance expense, excluding fair value adjustments and exchange gains, was $3,519,069. The fair value adjustments recorded in the year resulted from changes in estimates underlying the Knight facility and the Company's earn-out obligation. For the quarter ended December 31, 2015, finance expense also includes expenses relating to the extinguishment of the Knight Note and the Bloom Burton facilities, totaling $1,817,509. For further information, refer to the Financial Instruments section of this document.

Cash interest paid in the quarter ended December 31, 2015 was $1,122,165. This includes the payment of interest owing on the Knight Note and Bloom Burton facility at the time of extinguishment.

Income tax recovery

For the quarter ended December 31, 2015, the Company recorded an income tax recovery of $1,540,757 compared to an income tax recovery of $721,497 for the fourth quarter of 2014. The recovery is a reflection of the recognition and utilization of previously unrecognized brought forward losses in the US as a result of the income generated by the Company's anesthesia services segment. The Company estimates that it will fully utilize its brought forward tax losses in early 2016.

Net and comprehensive income

For the quarter ended December 31, 2015, the Company recorded net and comprehensive income attributable to shareholders of the Company of $154,078 compared to a net and comprehensive income attributable to shareholders of $382,664 for the fourth quarter of 2014. The decrease in earnings compared to 2014 is reflective of increases in finance expense in the quarter, offset by anesthesia services' contribution to earnings during the quarter.

Net and comprehensive income attributable to non-controlling interest was $145,165 for the fourth quarter of 2015.

RESULTS OF OPERATIONS – comparison to the immediately preceding quarter

Revenues have increased by $2,327,656 compared to the immediately preceding quarter. This is reflective of both new anesthesia acquisitions completed in the fourth quarter, the impact of acquisitions completed in the third quarter, as well as seasonality inherent in both the anesthesia and product businesses. Traditionally, the fourth quarter is the highest revenue generating quarter of the year due to the impact of seasonality.

Total adjusted operating expenses have increased by $964,398. This increase is mainly a result of increases in Anesthesia services adjusted operating expenses from the new acquisitions completed at the tail end of the third quarter and completed during the fourth quarter.

As a result of the above, operating EBITDA has increased by $1,363,258 when compared to the immediately preceding quarter.

Net and comprehensive income has decreased by $1,414,993 compared to the immediately preceding quarter. This is a reflection of the additional finance expenses incurred in the fourth quarter of 2015, offset by additional tax recoveries.

SUMMARY OF QUARTERLY RESULTS (Unaudited)

The following table sets forth certain unaudited consolidated statements of operations data expressed in thousands of United States dollars, except for per share figures, 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, 2015.

(in 000's of US$, except EPS)	Q4 '15	Q3 '15	Q2 '15	Q1 '15	Q4 '14	Q3 '14	Q2 '14	Q1 '14
Anesthesia services revenue[1]	11,330	9,195	8,514	7,457	3,386[1]	-	-	-
Product sales revenue	2,608	2,415	2,367	2,163	2,360	2,200	2,046	1,991
Total revenue	**13,938**	**11,610**	**10,881**	**9,620**	**5,746**	**2,200**	**2,046**	**1,991**
Operating expenses – adjusted[2]								
Anesthesia services[2]	5,061	4,023	3,460	2,984	1,255	-	-	-
Product sales[2]	950	888	981	904	978	1,034	990	867
Corporate[2]	664	798	665	639	843	445	442	434
Total operating expenses – adjusted[1]	**6,675**	**5,709**	**5,106**	**4,527**	**3,076**	**1,479**	**1,432**	**1,301**
Operating EBITDA[3] - non-controlling interest[4]	465	142	-	-	-	-	-	-
Operating EBITDA[3] - shareholders of the Company	**6,797**	**5,759**	**5,775**	**5,093**	**2,670**	**721**	**614**	**691**
Operating EBITDA[3] - total	**7,264**	**5,901**	**5,775**	**5,093**	**2,670**	**721**	**614**	**691**
Operating income	4,673	2,285	3,154	3,320	1,285	630	501	562
Net finance expense	5,914	1,013	4,492	1,665	1,623	-	-	-
Income tax expense (recovery)	(1,541)	(442)	(661)	(269)	(721)	210	174	194
Net income (loss)	**299**	**1,714**	**(678)**	**1,924**	**383**	**420**	**327**	**368**
Attributable to:								
Shareholders of the Company	154	1,676	(678)	1,924	383	420	327	368
Non-controlling interest[(4)]	145	38	-	-	-	-	-	-
Operating EBITDA per share attributable to shareholders								
Basic	0.096	0.083	0.083	0.083	0.056	0.015	0.013	0.014
Diluted	0.092	0.080	0.083	0.080	0.049	0.015	0.012	0.014
Earnings per share attributable to shareholders								
Basic	0.002	0.024	(0.010)	0.031	0.008	0.009	0.007	0.008
Diluted	0.002	0.023	(0.010)	0.030	0.007	0.009	0.007	0.007

1 Anesthesia revenue in Q4 2014 represents 1 month of anesthesia activity. Anesthesia revenues are calculated assuming an allowance for doubtful accounts estimate of 10%. The allowance for doubtful accounts estimate has been revised to 6% in 2015.

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

3 Operating EBITDA: This is a non-IFRS measure defined as operating earnings before interest, taxes, depreciation and related expenses, 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.

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

As at December 31, 2015, the Company had $3,572,344 in cash and cash equivalents compared to $4,133,663 at the end of 2014. The decrease in cash and equivalents is primarily a reflection of the bought deal equity offering that the Company completed on March 25, 2015, in combination with cash generated from operations, offset by utilization of cash to complete acquisitions in the year and the Company's repayment of principal on its Scotia Facility.

Working capital was $3,272,075 compared to negative working capital of $2,577,963 at December 31, 2014. The Company expects to meet its short-term obligations through cash earned through operating activities.

The Company has financed its operations primarily from revenues generated from product and anesthesia services and through equity and debt financings. As of December 31, 2015, 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. There have been no changes in the Crown note since December 31, 2014; however, in conjunction with the Company's bought deal equity offering and via the Scotia Facility, the Company has extinguished its financial obligations in respect of the Bloom Burton facility and the Knight Note. The Company's credit facilities are described as follows:

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, but prepayment without penalty is available to the Company as of December 1, 2017.

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, provides financing of up to $33,000,000. As at December 31, 2015, the Company had drawn $17,000,000 on the facility. 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 credit 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 December 31, 2015, the interest rate on the facility was LIBOR plus 2.75%. Commitment fees, legal fees directly related to the credit facility, and standby charges usual for borrowings of this nature were and are payable. The Scotia Facility replaced the Knight Note as the Company's senior debt agreement on extinguishment of the Note. 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**
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

As at December 31, 2015, the Company is in compliance with all debt covenants relating to the Crown Note and Scotia Facility**.**

Although the Company recorded net earnings for the years ended December 31, 2015 and 2014, the Company has incurred historical losses, and as at December 31, 2015 had an accumulated deficit of $9,831,078. The Company expects that going forward cash from operating activities will be positive and will be sufficient to fund the current business.

Cash provided by operating activities for the year ended December 31, 2015 was $17,957,340 compared to $1,388,110 for fiscal 2014.

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

The following table summarizes the relative maturities of the financial liabilities of the Company:

At December 31, 2015		Maturity			
	TOTAL	Less than one year	One to three years	Four to five years	After five years
Trade and other payables	$ 3,034,363	$ 3,034,363	$ -	$ -	$ -
Employee benefits	142,576	142,576	-	-	-
Notes payable and indebtedness	30,738,466	3,818,048	26,920,418	-	-
Loans	266,994	266,994	-	-	-
Earn-out obligation	12,468,958	-	12,468,958		
	$ 46,651,357	$ 7,261,981	$ 39,389,376	$ -	$ -

As at December 31, 2015, the Company has no material contractual obligations, other than those obligations relating to its leases of premises and those obligations under its debt agreements, as described above. The minimum lease payments in respect of the Company's leases will be $119,043 in fiscal 2016.

OUTSTANDING SHARE CAPITAL

As at December 31, 2015 there were 71,206,547 common shares issued and outstanding for a total of $51,066,044 in share capital.

As at December 31, 2015 there were 2,974,311 options outstanding at a weighted-average exercise price of $0.43 per share, of which 2,111,186 were exercisable into common shares at a weighted-average exercise price of $0.42 per share. As at December 31, 2015, there were 1,509,000 share units issued and outstanding.

As at February 24, 2016 there are 71,262,797 common shares issued and outstanding for a total of $51,135,131 in share capital. There are 2,918,061 options outstanding at a weighted-average exercise price of $0.44 per share, of which 2,126,811 were exercisable into common shares at a weighted average price of $0.43 per share. As at February 24, 2016, there are 1,494,000 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 December 31, 2015, the Board of Directors had not committed to proceed with any proposed asset or business acquisitions or dispositions that are not disclosed herein.

TRANSACTIONS WITH RELATED PARTIES

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

(a) Related party transactions:

The Company paid or accrued fees of $210,916 (2014 - $173,422) to Directors of the Company. Additionally, the Company made product sales totaling $36,800 (2014 - $118,198) to four companies owned or controlled by three of the Company's Directors. The transaction terms with related parties may not be on the same price as those that would result from transactions among non-related parties.

One of the directors of the Company is an indirect shareholder of KGAA.

(b) Compensation of key management personnel:

Key management personnel compensation, including directors, is as follows:

	2015	2014
Salaries, directors' fees and other benefits	$ 988,647	$ 1,221,387
Share-based payments	2,295,237	289,293
	$ 3,283,884	$ 1,510,680

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

(*ii*) There were no post-employment, termination or other long-term benefits paid during the years ending December 31, 2015 and 2014.

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

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. Controls are also designed to provide reasonable assurance that information required to be disclosed is assimilated and communicated to senior management in a timely manner so that appropriate decisions can be made regarding public disclosure. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures and concluded that they provide reasonable assurance that material information relating to the Company was made known to them and reported as required.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

The Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the COSO (2013) framework and concluded that the Company's internal control over financial reporting was effective as of December 31, 2015.

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

During 2015 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.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

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

The Company's intangible assets are comprised of purchased technology, purchased professional service agreements, and patents. The cost of the Company's intangible assets is amortized on a straight-line basis over the estimated useful life ranging from 0.7 to 20 years. Factors considered in estimating the useful life of intangible assets include the expected use of the asset by the Company, legal, regulatory and contractual provisions that may limit the useful life, and the effects of competition. Costs incurred to establish and maintain patents for intellectual property developed internally are expensed in the period incurred.

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

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

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

During the year ended December 31, 2015, the Company recorded an impairment charge of $389,693 in relation to the AHP acquisition as a result of the closure of one of the endoscopy centers to which the Company provided anesthesia services under a professional services agreement.

(b) Revenue recognition – Anesthesia services:

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

(c) Accounts receivable and allowance for doubtful accounts:

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

(d) Stock-based compensation**:**

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

(e) Income taxes**:**

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

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

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

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

FUTURE CHANGES IN ACCOUNTING POLICIES

New standards and interpretations not yet applied:

IFRS 9 *- Financial Instruments:*

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

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

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

Annual Improvements to IFRS (2012 – 2014):

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The amendments will apply for annual periods beginning on or after January 1, 2016. Earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. Each of the amendments has its own specific transition requirements.

Amendments were made to clarify the following in their respective standards:

- Changes in method for disposal under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- 'Continuing involvement' for servicing contracts and offsetting disclosures in condensed interim financial statements under IFRS 7 Financial Instruments: Disclosures;
- Discount rate in a regional market sharing the same currency under IAS 19 Employee Benefits;
- Disclosure of information 'elsewhere in the interim financial report' under IAS 34 Interim Financial Reporting;

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

Disclosure Initiative: Amendments to IAS 1 – *Presentation of Financial Statements:*

On December 18, 2014 the IASB issued amendments to IAS 1 *Presentation of Financial Statements* as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after 1 January 2016. Early adoption is permitted.

These amendments will not require any significant change to current practice, but will facilitate improved financial statement disclosures. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

IFRS 15 - *Revenue Recognition:*

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

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

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

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

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 16 – *Leases:*

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

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, employee benefit obligations, short term advances, notes payable and bank indebtedness, and the Company's earn-out obligation. The fair values of these financial instruments, except the notes payable balances and the earn-out obligation, approximate carrying value because of their short-term nature. The earn-out obligation arising from the Company's acquisition of GAA is classified as a financial liability 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.

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 bank indebtedness, excluding the earn-out obligation, are measured at amortized cost.

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

Credit risk

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

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

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

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

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

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

		2015		2014
Cash and cash equivalents	$	3,572,344	$	4,133,663
Trade receivables		7,031,030		3,334,462
	$	10,603,374	$	7,468,125

Liquidity risk

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

Market risk

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

(*i*) Foreign currency risk:

The majority of the Company's sales and purchases are made in U.S. dollars. However, certain of the Company's revenues and expenses are denominated in Canadian dollars. Foreign currency risk reflects the risk that the Company's earnings will be impacted by fluctuations in exchange rates. During the year ended December 31, 2015, approximately 0.4% (2014 – 1.4%) of the Company's sales were made in Canadian dollars and approximately 14% (2014 - 35%) of expenses was incurred in Canadian dollars. With all other variables held constant, a 10% point increase in the value of the Canadian dollar relative to the U.S. dollar would have decreased net income by approximately $309,000 (2014 - $293,000) for the year ended December 31, 2015. There would be an equal and opposite impact on the net income with a 10% point decrease in the value of the Canadian dollar relative to the U.S. dollar.

At December 31, 2015, the Company has Canadian dollar denominated working capital as well as a Canadian dollar denominated loan. Foreign exchange gains and losses arising from the revaluation of these balances are included in net income or earnings. With all other variables held constant, a 10% point increase in the value of the Canadian dollar relative to the U.S. dollar would have decreased net income by approximately $1,454,000 (2014 - $2,561,000) for the year ended December 31, 2015, based on the net working capital position and loan balances held in Canadian dollars. There would be an equal and opposite impact on the net income with a 10% point decrease in the value of the Canadian dollar relative to the U.S. dollar.

The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures and the resulting volatility of the Company's earnings. The Company manages this risk by pricing sales in U.S. dollars or the currency of the expenses being incurred. The Company has not entered into any forward foreign exchange contracts as at December 31 2015.

The Company is exposed to currency risk on the following:

Expressed in U.S. dollar equivalent		2015		2014
Cash and cash equivalents	$	71,378	$	67,521
Trade and other receivables		66,094		32,452
Trade and other payables and other financial liabilities		501,888		771,893
Notes payable		14,179,589		16,418,166

Interest rate risk

The Company's policy is to invest cash and equivalents at floating rates of interest, in order to maintain liquidity, while achieving a satisfactory return for the Company. Fluctuations in interest rates impact the value of cash equivalents. The Company's interest bearing liabilities are fixed rate instruments, except for its Scotia Facility. Fluctuations in market interest rates will have no significant impact on the Company's fixed rate debt instruments, but may impact the fair value of such instruments at any given date. With respect to the Company's Scotia Facility, with all other variables held constant, a 10% point increase in the interest rate would have reduced net income by approximately $5,000 (2014 - $nil) for the year ended December 31, 2015. There would be an equal and opposite impact on the net income with a 10% point decrease.

LEGAL PROCEEDINGS

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

NON-IFRS MEASUREMENTS

The following are non-IFRS measures and investors are cautioned not to place undue reliance on them and are urged to read all IFRS accounting disclosures present in the consolidated financial statements and accompanying notes for the consolidated financial statements for the year ended December 31, 2015.

The Company uses certain non-IFRS financial measures as supplemental indicators of its financial and operating performance. These non-IFRS financial measures include Operating EBITDA and Operating expenses - adjusted. 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 Operating EBITDA as operating earnings before interest, taxes, depreciation and related expenses, amortization, stock based compensation, acquisition related expenses and asset impairment charges. Operating EBITDA is presented on a basis consistent with the Company's internal management reports. The Company discloses 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 Operating expenses - adjusted as operating expenses before acquisition related expenses, stock based compensation, depreciation and related expenses, amortization and asset impairment charges. Operating expenses - adjusted is 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:

Operating EBITDA

For the three months ended	2015				2014				For the year ended		
(USD in thousands)	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar	2015	2014	2013
Operating EBITDA attributable to:											
Shareholders of the Company	6,797	5,758	5,775	5,093	2,670	721	614	691	23,425	4,696	2,117
Non-controlling interest	465	142	-	-	-	-	-	-	607	-	-
Total Operating EBITDA	**7,263**	**5,900**	**5,775**	**5,093**	**2,670**	**721**	**614**	**691**	**24,032**	**4,696**	**2,117**
Amortization expense	(2,188)	(1,745)	(1,459)	(1,402)	(458)	-	-	-	(6,795)	(458)	-
Depreciation and related expense	(18)	(17)	(17)	(12)	(13)	(10)	(12)	(18)	(64)	(53)	(83)
Stock based compensation	(261)	(1,001)	(1,145)	(343)	(69)	(82)	(101)	(110)	(2,749)	(362)	(235)
Acquisition expenses	(123)	(221)	-	(16)	(845)	-	-	-	(361)	(845)	-
Impairment of inventory	-	(241)	-	-	-	-	-	-	(241)	-	-
Impairment of intangible assets	-	(390)	-	-	-	-	-	-	(390)	-	-
Operating income	**4,673**	**2,285**	**3,154**	**3,320**	**1,285**	**629**	**501**	**563**	**13,431**	**2,978**	**1,799**

Operating expenses - adjusted

For the three months ended	2015				2014				For the year ended		
	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar	2015	2014	2013
(USD in thousands)											
Anesthesia services operating expense – adjusted	**5,061**	**4,023**	**3,460**	**2,984**	**1,255**	**-**	**-**	**-**	**15,528**	**1,255**	**-**
Amortization expense	2,188	1,745	1,459	1,403	458	-	-	-	6,795	458	-
Depreciation and related expense	4	3	2	-	-	-	-	-	8	-	-
Stock based compensation	12	13	10	2	-	-	-	-	37	-	-
Acquisition expenses	123	221	-	-	-	-	-	-	345	-	-
Impairment of intangible assets	-	390	-	-	-	-	-	-	390	-	-
Anesthesia services expense	**7,389**	**6,395**	**4,931**	**4,389**	**1,713**	**-**	**-**	**-**	**23,103**	**1,713**	**-**
Product sales operating expense – adjusted	**950**	**888**	**981**	**904**	**978**	**1,034**	**990**	**867**	**3,724**	**3,869**	**4,012**
Amortization expense	-	-	-	-	-	-	-	-	-	-	-
Depreciation and related expense	1	1	1	1	1	-	1	7	3	9	26
Stock based compensation	81	106	80	136	22	19	21	31	402	93	128
Impairment of inventory	-	241	-	-	-	-	-	-	241	-	-
Product sales expense	**1,031**	**1,236**	**1,062**	**1,041**	**1,001**	**1,053**	**1,012**	**905**	**4,369**	**3,971**	**4,166**
Corporate operating expenses – adjusted	**664**	**798**	**665**	**638**	**843**	**445**	**442**	**434**	**2,765**	**2,164**	**1,554**
Amortization expense	-	-	-	-	-	-	-	-	-	-	-
Depreciation and related expense	14	14	14	11	12	10	11	11	54	44	55
Stock based compensation	167	882	1,056	205	47	63	80	79	2,310	269	107
Acquisition expenses	-	-	-	16	845	-	-	-	16	845	-
Corporate expense	**845**	**1,694**	**1,735**	**870**	**1,747**	**518**	**533**	**524**	**5,145**	**3,322**	**1,716**
Total operating expense – adjusted	**6,675**	**5,709**	**5,106**	**4,527**	**3,076**	**1,479**	**1,432**	**1,301**	**22,017**	**7,288**	**5,566**
Total operating expense	**9,265**	**9,325**	**7,728**	**6,300**	**4,461**	**1,571**	**1,545**	**1,429**	**32,617**	**9,006**	**5,882**

Consolidated Financial Statements
(Expressed in United States dollars)

CRH MEDICAL CORPORATION

Years ended December 31, 2015 and 2014

MANAGEMENT'S REPORT

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

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

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

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

Chief Executive Officer
(signed) "Edward Wright"

Chief Financial Officer
(signed) "Richard Bear"

February 24, 2016

KPMG LLP
Chartered Professional Accountants
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of CRH Medical Corporation

We have audited the accompanying consolidated financial statements of CRH Medical Corporation, which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014, the consolidated statements of operations and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of CRH Medical Corporation as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

Chartered Professional Accountants

February 24, 2016
Vancouver, Canada

CRH MEDICAL CORPORATION

Consolidated Balance Sheets
(Expressed in United States dollars)

As at December 31, 2015 and 2014

	Notes	2015	2014
Assets			
Current assets:			
Cash and cash equivalents		$ 3,572,344	$ 4,133,663
Trade and other receivables	8	7,091,549	5,718,651
Prepaid expenses and deposits		484,795	181,923
Inventories		254,924	614,337
		11,403,612	10,648,574
Non-current assets:			
Property and equipment	10	284,706	129,864
Intangible assets	11	87,307,267	65,604,729
Other asset		-	1,550,940
Deferred tax assets	15	5,499,693	1,030,183
		93,091,666	68,315,716
Total assets		$ 104,495,278	$ 78,964,290
Liabilities			
Current liabilities:			
Trade and other payables	9	$ 3,034,363	$ 6,051,213
Employee benefits		142,576	105,930
Current tax liabilities	15	869,556	193,612
Notes payable and bank indebtedness	12,18	3,818,048	6,613,300
Short term advances		-	262,482
Loan	4	266,994	-
		8,131,537	13,226,537
Non-current liabilities:			
Notes payable and bank indebtedness	12,18	26,920,418	39,509,431
Earn-out obligation	18	12,468,958	7,440,960
		39,389,376	46,950,391
Equity			
Share capital	14	51,066,044	25,913,839
Contributed surplus		6,556,951	5,847,564
Accumulated other comprehensive income (loss)		(66,772)	(66,772)
Deficit		(9,831,078)	(12,907,269)
Total equity attributable to shareholders of the Company		47,725,145	18,787,362
Non-controlling interest		9,249,220	-
Total equity		56,974,365	18,787,362
Total liabilities and equity		$ 104,495,278	$ 78,964,290

Commitments and contingencies (note 19)
Related party transactions (note 20)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

(signed) "Edward Wright" Director
Edward Wright

(signed) "Anthony Holler" Director
Anthony Holler

CRH MEDICAL CORPORATION

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

Years ended December 31, 2015 and 2014

	Notes		2015		2014
Revenue:					
Anesthesia services	21	$	36,496,035	$	3,386,073
Product sales	21		9,552,445		8,598,097
			46,048,480		11,984,170
Expenses:					
Anesthesia services expense	5		23,103,493		1,713,262
Product sales expense	6		4,369,144		3,970,930
Corporate expense	7		5,144,657		3,322,085
			32,617,294		9,006,277
Operating income			13,431,186		2,977,893
Finance income	17		(2,737,964)		(410,208)
Finance expense	17		15,822,292		2,033,667
			13,084,328		1,623,459
Income before tax			346,858		1,354,434
Income tax expense (recovery)	15		(2,912,970)		(143,719)
Net and comprehensive income		$	3,259,828	$	1,498,153
Attributable to:					
Shareholders of the Company		$	3,076,191	$	1,498,153
Non-controlling interest			183,637		-
		$	3,259,828	$	1,498,153
Earnings per share attributable to shareholders					
Basic	14(e)	$	0.045	$	0.031
Diluted	14(e)	$	0.043	$	0.030
Weighted average shares outstanding:					
Basic			67,870,529		48,876,822
Diluted			70,772,341		49,835,377

See accompanying notes to consolidated financial statements.

CRH MEDICAL CORPORATION

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

For the years ended December 31, 2015 and 2014

	Number of shares		Share capital		Contributed surplus		Accumulated other comprehensive income (loss)		Deficit		Non-controlling interest		Total equity
Balance as at January 1, 2014	48,746,914	$	17,181,474	$	5,570,839	$	(66,772)	$	(14,405,422)	$	-	$	8,280,119
Total net and comprehensive income for the year	-		-		-		-		1,498,153		-		1,498,153
Transactions with owners, recorded directly in equity:													
Stock-based compensation expense	-		-		362,239		-		-		-		362,239
Common shares purchased on exercise of options	167,188		224,985		(85,514)		-		-		-		139,471
Shares issued through private placement, net of fees	6,967,845		4,919,480		-		-		-		-		4,919,480
Shares issued to lenders	5,000,000		3,587,900		-		-		-		-		3,587,900
Balance as at December 31, 2014	60,881,947		25,913,839		5,847,564		(66,772)		(12,907,269)		-		18,787,362
Total net and comprehensive income for the year	-		-		-		-		3,076,191		183,637		3,259,828
Transactions with owners, recorded directly in equity:													
Stock based compensation expense	-		-		2,749,452		-		-		-		2,749,452
Common shares purchased on exercise of options	758,193		1,051,233		(393,960)		-		-		-		657,273
Common shares issued on vesting of share units	1,000,000		1,750,000		(1,750,000)		-		-		-		-
Shares issued through share offering, net of fees (note 14)	8,050,000		20,254,709		-		-		-		-		20,254,709
Deferred tax recovery on share issuance costs (note 14)	-		420,511		-		-		-		-		420,511
Broker warrants issued in share offering (note 14)	-		(249,149)		249,149		-		-		-		-
Exercise of broker warrants (note 14)	140,795		508,413		(145,254)		-		-		-		363,159
Common shares issued in connection with acquisition, net of transaction costs (note 4)	375,612		1,416,488		-		-		-		-		1,416,488
Acquisition of non-controlling interest (note 4)	-		-		-		-		-		9,065,583		9,065,583
Balance as at December 31, 2015	71,206,547	$	51,066,044	$	6,556,951	$	(66,772)	$	(9,831,078)	$	9,249,220	$	56,974,365

See accompanying notes to consolidated financial statements.

CRH MEDICAL CORPORATION

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

For the years ended December 31, 2015 and 2014

	Notes		2015		2014
Cash provided by (used in)					
Operating activities:					
Net and comprehensive income		$	3,259,828	$	1,498,153
Adjustments for:					
Depreciation of property, equipment and intangibles and write-offs			6,859,393		510,626
Write-off of intangible asset			389,693		-
Write-off of inventory			240,946		-
Stock based compensation	14		2,749,452		362,239
Unrealized foreign exchange (gain)			(2,803,931)		(391,680)
Finance expense	17		15,822,292		811,350
Income tax expense (recovery)	15		(2,912,970)		(143,720)
Operating activity before changes in operating assets and liabilities			23,604,703		2,646,968
Taxes paid			(460,084)		-
Change in trade and other receivables			(1,372,898)		(176,898)
Change in prepaid expenses and deposits			(302,872)		(45,307)
Change in inventories			118,467		(293,852)
Change in trade and other payables			(3,404,140)		(996,535)
Change in employee benefits			36,646		(8,748)
Change in advance			(262,482)		262,482
Cash provided by operating activities			17,957,340		1,388,110
Financing activities					
Net proceeds on the issuance of shares	14		20,254,709		4,181,880
Net proceeds from loans	4		266,994		-
Payment of interest on notes payable and bank indebtedness	12		(5,903,690)		
Proceeds (repayment) of notes payable	12		(32,000,000)		48,534,831
Proceeds on bank indebtedness	12		16,514,092		
Proceeds from the exercise of broker warrants			363,159		-
Proceeds from the issuance of shares relating to stock based compensation			657,273		139,471
Cash provided by (used in) financing activities			152,537		52,856,182
Investing activities					
Acquisition of property and equipment			(184,838)		(95,029)
Cash acquired through acquisition			-		2,011,548
Acquisition of anesthesia services providers	4		(18,471,864)		(58,623,000)
Cash used in investing activities			(18,656,702)		(56,706,481)
Effects of foreign exchange on cash and cash equivalents			(14,494)		(6,946)
Increase (decrease) in cash and cash equivalents			(561,319)		(2,469,135)
Cash and cash equivalents, beginning of period			4,133,663		6,602,798
Cash and cash equivalents, end of period		$	3,572,344	$	4,133,663

See accompanying notes to consolidated financial statements.

1. Reporting entity:

CRH Medical Corporation ("CRH" or "the Company") was incorporated on April 21, 2001 under the Company Act of the Province of British Columbia and specializes in the treatment of hemorrhoids utilizing its treatment protocol and patented proprietary technology. The Company also provides anesthesiology services to gastroenterologists in the southeastern United States through its subsidiaries (note 4).

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

2. Basis of preparation:

(a) Statement of compliance:

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 24, 2016.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

2. Basis of preparation (continued):

(d) Use of estimates, assumptions and judgments:

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

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

(*i*) Use of estimates and assumptions:

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

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

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

(*ii*) Judgments:

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

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

3. Significant accounting policies:

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

(a) Basis of consolidation:

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

(b) Cash equivalents:

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

(c) Foreign currency:

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

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

(d) Revenue recognition:

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

3. Significant accounting policies (continued):

(e) Employee benefits:

(*i*) Salaries and short-term employee benefits:

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

(f) Inventories:

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

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

3. Significant accounting policies (continued):

(g) Property and equipment:

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

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

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

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

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

(h) Intangible assets:

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

Asset	Basis	Rate
Intellectual property rights the CRH O'Regan System	Straight-line	15 years
Intellectual property new technology	Straight-line	20 years
Exclusive professional services agreements	Straight-line	0.7 to 12 years

3. Significant accounting policies (continued):

(i) Financial instruments:

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

Financing fees related to debt are capitalized to other assets and amortized to finance costs over the term of the credit facility.

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

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

Financial assets at fair value through earnings are financial assets that are held for trading and include derivative instruments that are not included in a qualifying hedging relationship. Financial assets classified as financial assets at fair value through earnings are initially measured at fair value with any gains or losses arising on re-measurement recognized in earnings. The Company has no financial assets at fair value through earnings.

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

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

3. Significant accounting policies (continued):

(i) Financial instruments (continued):

The Company has classified cash and cash equivalents, trade and other receivables as loans and receivables, and trade and other payables, employee benefit obligations, short term advances, loans and certain of its notes payable and bank indebtedness as other financial liabilities. Loans and receivables are initially measured at fair value and are subsequently re-measured at amortized cost using the effective interest method, less any impairment losses. The Company has classified certain of its notes payable and its earn-out obligation as financial liabilities at fair value through earnings.

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

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

(j) Impairment:

Financial assets:

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

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

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

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

3. Significant accounting policies (continued):

(j) Impairment (continued):

Non-financial assets:

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

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows from other assets or groups of assets (cash-generating unit). Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An asset’s carrying amount, increased through reversal of an impairment loss, must not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(k) Income taxes:

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

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

3. Significant accounting policies (continued):

(k) Income taxes (continued):

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

(l) Share-based compensation:

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

(m) Share capital:

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

3. Significant accounting policies (continued):

(n) Earnings per share:

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

(o) Provisions:

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

(p) Segment reporting:

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

(q) Finance costs:

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

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

3. Significant accounting policies (continued):

(r) Business combinations:

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

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

(s) Comparative information:

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

(t) Adoption of new accounting standards:

The Company has not early adopted any amendment, standard or interpretation that has been issued by the IASB but is not yet effective. Amendments, standards and interpretations that are issued but not yet effective are described in note 3(u).

(u) New standards and interpretations not yet applied:

(i) IFRS 9 - *Financial Instruments:*

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

3. Significant accounting policies (continued):

(u) New standards and interpretations not yet applied:

(i) IFRS 9 - *Financial Instruments:*

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

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

(ii) Annual Improvements to IFRS (2012 – 2014):

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The amendments will apply for annual periods beginning on or after January 1, 2016. Earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. Each of the amendments has its own specific transition requirements.

Amendments were made to clarify the following in their respective standards:

- Changes in method for disposal under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- ‘Continuing involvement’ for servicing contracts and offsetting disclosures in condensed interim financial statements under IFRS 7 Financial Instruments: Disclosures;
- Discount rate in a regional market sharing the same currency under IAS 19 Employee Benefits;
- Disclosure of information ‘elsewhere in the interim financial report’ under IAS 34 Interim Financial Reporting;

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

3. Significant accounting policies (continued):

(u) New standards and interpretations not yet applied:

(iii) Disclosure Initiative: Amendments to IAS 1 – *Presentation of Financial Statements:*

On December 18, 2014 the IASB issued amendments to IAS 1 *Presentation of Financial Statements* as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

These amendments will not require any significant change to current practice, but will facilitate improved financial statement disclosures. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

(iv) IFRS 15 - *Revenue Recognition:*

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

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

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

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

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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

(Expressed in United States dollars)

4. Business combinations:

During the year ended December 31, 2015, the Company completed five 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
John's Creek Anesthesia LLC ("John's Creek")	December 2015	$1,200,000
Macon Gastroenterology Anesthesia Associates LLC ("MGAA")	December 2015	$4,670,000
Knoxville Gastroenterology Anesthesia Associates LLC ("KGAA")	September 2015	$6,818,352
Associates in Digestive Health LLC ("ADH")	August 2015	$6,600,000
Anesthesia Healthcare Providers of Florida and AHP of North Carolina (collectively "AHP")	March 2015	$600,000

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

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

	AHP	ADH	KGAA	MGAA	John's Creek	Total
Cash	$ 600,000	$ 6,600,000	$ 5,395,700	$ 4,670,000	$ 1,200,000	$ 18,465,700
Common shares	-	-	1,422,652	-	-	1,422,652
Purchase consideration	600,000	6,600,000	6,818,352	4,670,000	1,200,000	19,888,352
Non-controlling interest	-	-	6,550,968	2,514,615	-	9,065,583
	$ 600,000	$ 6,600,000	$ 13,369,320	$ 7,184,615	$ 1,200,000	$ 28,953,935
Assets and liabilities acquired:						
Exclusive professional services agreements	600,000	6,600,000	$ 13,369,320	$ 7,152,308	$ 1,200,000	$ 28,921,628
Inventory	-	-	-	32,307	-	32,307
Fair value of net identifiable assets and liabilities acquired	$ 600,000	$ 6,600,000	$ 13,369,320	$ 7,184,615	$ 1,200,000	$ 28,953,935
Exclusive professional services agreements – amortization term	0.7 to 2.8 years	7 years	7 years	5 years	10.9 years	
Acquisition costs expensed	$ 16,083	$ 110,727	$ 110,727	$ 61,715	$ 61,715	$ 360,967

The value of the acquired intangible assets, being exclusive professional services agreements, have been determined on a provisional basis and relates to the acquisition of exclusive professional services agreements to provide professional anesthesia services. As at the acquisition dates, except for the AHP and John's Creek acquisitions, the exclusive professional services agreements renew annually unless notice of termination is received. For the AHP acquisition, as at the acquisition date, the exclusive professional services agreements had estimated remaining contractual terms varying from 0.7 to 2.8 years. For the John's Creek acquisition, the exclusive professional services agreement has an estimated remaining contractual term of 10 years and 11 months. The amortization terms for the remaining agreements are based upon contractual terms within the acquisition agreements.

4. Business combinations (continued):

John's Creek

In December 2015, a subsidiary of the Company entered into an asset purchase agreement to purchase certain assets of John's Creek Anesthesia, LLC ("John's Creek"), an anesthesia services provider in the Southeastern United States. The total purchase price under the asset purchase agreement was $1,200,000 and was paid via cash. The Company has obtained control over the business through its contractual ability to direct the relevant activities of the assets acquired.

MGAA

In December 2015, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire 65% of the ownership interest in Macon Gastroenterology Anesthesia Associates LLC ("MGAA"), an anesthesia services provider in the Southeastern United States. The total purchase price under the asset contribution and exchange agreement was $4,670,000 and was paid via cash. As part of the transaction, the Company also entered into an operating agreement between it and the non-controlling interest shareholders of MGAA which governs the operation of MGAA. As a result of the 65% ownership interest acquired and the operating agreement, the Company has acquired control of MGAA and, as a result, 100% of the financial results of MGAA has been included in the Company's consolidated financial statements from the date of acquisition. The non-controlling interest of $2,514,615 was determined based on 35% of the fair value of MGAA'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 $185,714 and $100,000, respectively. The terms of the loans are such that they will be repaid first, prior to any future distributions.

KGAA

In September 2015, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire 51% of the ownership interest in Knoxville Gastroenterology Anesthesia Associates LLC ("KGAA"), an anesthesia services provider in the Southeastern United States. The total purchase price under the asset contribution and exchange agreement was $6,818,352 and was paid via a combination of cash ($5,395,700) and common shares (375,612 common shares with a value at acquisition of $1,422,652). As part of the transaction, the Company also entered into an operating agreement between it and the non-controlling interest shareholders of KGAA which governs the operation of KGAA. As a result of the 51% ownership interest acquired and the operating agreement, the Company has acquired control of KGAA and, as a result, 100% of the financial results of KGAA has been included in the Company's consolidated financial statements from the date of acquisition. The non-controlling interest of $6,550,968 was determined based on 49% of the fair value of KGAA's net identifiable assets as estimated by the Company. One of the directors of the Company is an indirect shareholder of KGAA.

In conjunction with the acquisition, both the Company and the non-controlling interest shareholder contributed loans of $173,810 and $166,994, respectively. The terms of the loans are such that they will be repaid first, prior to any future distributions. The loan for $173,810 was repaid in December 2015 and the $166,994 loan was repaid in January 2016.

(Expressed in United States dollars)

4. Business combinations (continued):

ADH

In August 2015, a subsidiary of the Company entered into an asset purchase agreement to purchase certain assets of Associates in Digestive Health LLC ("ADH"), an anesthesia services provider in the Southeastern United States. The total purchase price under the asset purchase agreement was $6,600,000 and was paid via cash. The Company has obtained control over the business through its contractual ability to direct the relevant activities of the assets acquired.

AHP

In March 2015, a subsidiary of the Company entered into an asset purchase agreement to purchase certain assets of two anesthesia services providers in the Southeastern United States (hereinafter referred to as "AHP"). The total purchase price under the asset purchase agreement was $600,000. The Company has obtained control over the business through its contractual ability to direct the relevant activities of the assets acquired.

Subsequent to completion of the acquisition, the Company received notice of the closure, effective August 1, 2015, of one of the endoscopy centers to which the Company provides anesthesia services under an exclusive professional services agreement acquired through this acquisition. As a result of the closure, the Company has recorded an impairment charge for the full value of the affected professional services agreement intangible totaling $389,693.

In the year ended December 31, 2015, the above noted acquisitions contributed revenue and net earnings before tax as follows:

	Year ended December 31, 2015					
	AHP	ADH	KGAA	MGAA	John's Creek	Total
Revenue	$ 1,367,980	$ 970,024	$ 2,135,066	$ 205,488	$ -	$ 4,678,558
Net earnings (loss) before tax	$ (295,770)	$ 142,119	$ 563,568	$ (25,924)	$ -	$ 383,993
Amortization	$ 187,948	$ 392,857	$ 636,634	$ 80,752	-	$ 1,298,191

The following unaudited supplemental pro forma financial information presents information as if the acquisitions had been completed on January 1, 2015. 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 2015. The pro forma financial information (unaudited) presented includes amortization charges for acquired intangible assets based on the values assigned in the purchase price allocation and excludes the effect of actual impairment charges recorded in the period. Were the acquisitions completed on January 1, 2015, revenue for the consolidated group would have been approximately $56.0 million and net income before tax would have been approximately $2.7 million.

	Year ended December 31, 2015					
Pro Forma Information (unaudited)						
	AHP	ADH	KGAA	MGAA	John's Creek	Total
Revenue	$ 1,694,042	$ 2,310,018	$ 5,709,620	$ 3,571,577	$ 1,303,387	$ 14,588,644
Net earnings before tax	$ 85,870	$ 306,340	$ 1,600,094	$ 80,628	$ 623,992	$ 2,696,924
Amortization	$ 244,700	$ 942,847	$ 1,909,903	$ 1,403,544	$ 109,924	$ 4,610,918

(Expressed in United States dollars)

4. Business combinations (continued):

Gastroenterology Anesthesia Associates LLC ("GAA")

On December 1, 2014, a subsidiary of the Company entered into an acquisition agreement to purchase the business, assets and interests of Gastroenterology Anesthesia Associates LLC (the "LLC") and the business interest contained in a management services agreement held by another private entity ("GAAM"), together the combined business hereinafter referred to as "GAA". The total purchase price under the agreement was $58,623,000 paid at closing and up to an additional $14,655,000 payable within 4.5 years after closing based on the achievement of certain financial performance targets of GAA (the "Earn-out obligation"). As at December 31, 2014, 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 maximum total purchase price assuming achievement of all performance measures is $73,278,000. The earn-out obligation has been recorded at the net present value of its fair value as at the date of the acquisition and changes in the fair value are recorded through earnings (note 18).

Included in these consolidated financial statements for the year ended December 31, 2014 for GAA were sales of $3,386,073 and net earnings before tax of $1,516,970.

CRH has obtained control over GAA through its contractual ability to direct its relevant activities and its right to variable returns.

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.

Cash	$	58,623,000
Contingent consideration ("Earn-out obligation")		7,339,032
Purchase consideration		65,962,032
Assets and liabilities acquired		
Exclusive professional services agreements		65,962,032
Cash		2,011,548
Pre-close trade receivables		4,849,289
Pre-close trade payables		(6,860,837)
Fair value of net identifiable assets acquired	$	65,962,032

The value of the acquired intangible assets, being the exclusive professional services agreements, relates to the acquisition of exclusive professional services agreements to provide professional anesthesia services. As at the acquisition date, the exclusive professional services agreements had a remaining contractual term of 6 years and 11 months and can be renewed by agreement of both parties. The Company amortizes these contractual assets over a term of 12 years.

(Expressed in United States dollars)

5. Anesthesia services expense:

For the years ended December 31:

	2015	2014
Employee related	$ 9,144,390	$ 541,492
Depreciation and amortization	6,802,971	458,070
Bad debt expense	1,981,516	338,168
Office related	3,445,313	305,412
Write-off of professional services contract	389,693	-
Acquisition expense	344,884	-
Medical supplies	710,963	56,210
Stock based compensation	37,539	-
Professional fees	206,873	13,910
Insurance	39,051	-
Foreign exchange	300	-
	$ 23,103,493	$ 1,713,262

6. Product sales expense:

For the years ended December 31:

	2015	2014
Employee related	$ 1,317,665	$ 1,358,939
Product cost and support	1,956,487	1,769,182
Write-off of inventory	240,946	-
Professional fees	170,624	503,005
Office related	226,898	185,350
Stock based compensation	401,969	92,985
Insurance	54,430	52,355
Depreciation and amortization	2,596	9,114
Foreign exchange	(2,471)	-
	$ 4,369,144	$ 3,970,930

(Expressed in United States dollars)

7. Corporate expense:

For the years ended December 31:

	2015	2014
Employee related	$ 1,099,438	$ 1,155,203
Professional expenses	666,048	337,036
Corporate	416,015	333,820
Stock based compensation	2,309,944	269,254
Travel and entertainment	241,819	145,860
Office related	157,462	126,997
Insurance	162,502	65,137
Acquisition expenses	16,083	845,336
Depreciation and write-offs	53,826	43,442
Foreign exchange	21,520	-
	$ 5,144,657	$ 3,322,085

8. Trade and other receivables:

	2015	2014
Trade receivables (note 18(a))	$ 7,031,030	$ 3,334,462
Receivables of the former GAA (note 4)	-	2,363,760
Other receivables	60,519	20,429
	$ 7,091,549	$ 5,718,651

9. Trade and other payables:

	2015	2014
Trade payables	$ 545,606	$ 588,428
Payments due to former owners of GAA (note 4)	77,017	4,586,808
Other payables	2,411,740	875,977
	$ 3,034,363	$ 6,051,213

(Expressed in United States dollars)

10. Property and equipment:

	Computer equipment and software	Furniture and equipment	Leasehold improvements	Injection mold	Total
Cost					
Balance as at January 1, 2014	$ 27,241	$ 44,042	$ 2,312	$ 126,915	$ 200,510
Additions	5,623	15,544	-	73,862	95,029
Balance as at December 31, 2014	32,864	59,586	2,312	200,777	295,539
Additions	10,448	61,479	2,415	110,496	184,838
Dispositions	-	(4,870)	-	-	(4,870)
Balance as at December 31, 2015	$ 43,312	$ 116,195	$ 4,727	$ 311,273	$ 475,507

	Computer equipment and software	Furniture and equipment	Leasehold improvements	Injection mold	Total
Accumulated depreciation					
Balance as at January 1, 2014	$ 7,892	$ 15,199	$ 2,312	$ 120,290	$ 145,693
Depreciation expense	6,845	6,512	-	6,625	19,982
Balance as at December 31, 2014	14,737	21,711	2,312	126,915	165,675
Depreciation expense	7,425	20,341	282	-	28,048
Dispositions	-	(2,922)	-	-	(2,922)
Balance as at December 31, 2015	$ 22,162	$ 39,130	$ 2,594	$ 126,915	$ 190,801

	Computer equipment and software	Furniture and equipment	Leasehold improvements	Injection mold	Total
Net book value					
December 31, 2015	$ 21,150	$ 77,065	$ 2,133	$ 184,358	$ 284,706
December 31, 2014	$ 18,127	$ 37,875	$ -	$ 73,862	$ 129,864

(Expressed in United States dollars)

11. Intangible assets:

	Professional Services Agreements	Patents	Total
Cost			
Balance as at January 1, 2014	$ -	$ 532,598	$ 532,598
Additions through business combinations (note 4)	65,962,032	-	65,962,032
Balance as at December 31, 2014	65,962,032	532,598	66,494,630
Additions through business combinations (note 4)	28,921,628	-	28,921,628
Write-off	(466,968)	-	(466,968)
Balance as at December 31, 2015	$ 94,416,692	$ 532,598	$ 94,949,290

	Professional Services Agreements	Patents	Total
Accumulated depreciation			
Balance as at January 1, 2014	$ -	$ 399,257	$ 399,257
Amortization expense	458,070	32,574	490,644
Balance as at December 31, 2014	458,070	431,831	889,901
Amortization expense	6,795,028	34,369	6,829,397
Write-off	(77,275)	-	(77,275)
Balance as at December 31, 2015	$ 7,175,823	$ 466,200	$ 7,642,023

	Professional Services Agreements	Patents	Total
Net book value			
December 31, 2015	$ 87,240,869	$ 66,398	$ 87,307,267
December 31, 2014	$ 65,503,962	$ 100,767	$ 65,604,729

(Expressed in United States dollars)

12. Notes payable:

December 31, 2015		Crown Note	Knight Note	Knight Annual Fee	Bloom Burton Facility	Scotia Facility		Total
Current portion	$	-	-	-	-	3,818,048	$	3,818,048
Non-current portion		14,179,589	-	-	-	12,740,829		26,920,418
Total loans and borrowings	$	14,179,589	-	-	-	16,558,877	$	30,738,466

December 31, 2014		Crown Note	Knight Note	Knight Annual Fee	Bloom Burton Facility	Scotia Facility		Total
Current portion	$	193,950	5,666,667	752,683	-	-	$	6,613,300
Non-current portion		16,224,216	21,338,826	-	1,946,389	-		39,509,431
Total loans and borrowings	$	16,418,166	27,005,493	752,683	1,946,389	-	$	46,122,731

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.

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, provides financing of up to $33,000,000. As at December 31, 2015, the Company had drawn $17,000,000 on the facility. 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 credit 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 December 31, 2015, the interest rate on the facility was LIBOR plus 2.75%. Commitment fees, legal fees directly related to the credit facility, and standby charges usual for borrowings of this nature were and are payable. The Scotia Facility replaced the Knight Note as the Company’s senior debt agreement on extinguishment of the Note. 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
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

12. Notes payable (continued):

As at December 31, 2015, the Company was in compliance with all financial covenants relating to the Scotia Facility and Crown Note.

Knight Therapeutics Inc. (“Knight Note”)
On December 1, 2014, the Company entered into an agreement to borrow funds in the form of a secured note payable from Knight Therapeutics Inc. At inception, the original amount of the note payable was $30,000,000. The note bore interest at 10% per annum. Interest on the note was payable on a quarterly basis beginning March 31, 2015. The earliest maturity date of the loan was December 1, 2016, but could be extended to December 1, 2017 if certain conditions were met. The agreement contained contractual clauses that required early repayment of a portion of the principal balance should the Company complete an equity financing. In compensation for its services, the Company paid Knight a combination of cash ($1,200,000) and shares (3,000,000 common shares) in addition to reimbursement of legal costs in relation to issuance of the note. The note was classified as an other financial liability and recorded at fair value through earnings.

On March 25, 2015, in conjunction with the close of the Company’s bought deal equity offering, the Company repaid $7,968,526 of the principal balance owing, with related interest of $251,063. The principal repayment satisfied the Company’s contractual requirement to repay a portion of the outstanding principal balance should the Company complete an equity financing.

On November 25, 2015, in conjunction with the Scotia Facility, the Company repaid in full the principal owing on the Knight debt ($22,031,474), with related interest, prepayment penalties and other extinguishment related costs of $1,778,707. As a result of the extinguishment of the Knight Note, the Company recorded finance expense of $1,812,521 representing the difference between the fair value of the loan at extinguishment and the consideration transferred to extinguish its financial obligations under the note.

(Expressed in United States dollars)

12. Notes payable (continued):

Knight Therapeutics Inc. – Annual Fee (“Knight Annual Fee”)
In accordance with the Knight Note agreement, the Company was obligated to pay an annual fee relating to a comfort letter provided by Knight in respect of the Company’s earn-out obligation (note 4). This fee was recognized as a separate financial liability, and recorded at fair value based on the Company’s best estimate of the amount to be paid, and subsequently measured at amortized cost. On extinguishment of the Knight Note, the Annual Fee Liability and the Company’s requirement to pay an annual fee was also extinguished. The Company recorded an extinguishment gain of $53,574 in respect of the extinguishment of this liability in finance expense in the year.

Bloom Burton Healthcare Structured Lending Fund II (“Bloom Burton Facility”)
On December 1, 2014, the Company entered into an unsecured facility agreement with Bloom Burton Healthcare Structured Lending Fund II (“Bloom Burton”) with a maximum borrowing limit of $2,000,000. The facility bore interest at 12% per annum. Accrued interest was payable on the maturity date or the date of any voluntary prepayment of the loan. Full payment was required within 54 months after the first advance under the facility or at date mutually agreed between the Company and Bloom Burton. The facility was subordinate to the Knight note. The facility was classified as an other financial liability and recorded at amortized cost.

On November 25, 2015, in conjunction with the Scotia Facility, the Company repaid in full the principal owing on the Bloom Burton facility ($2,000,000), with related interest of $236,712. As a result of the extinguishment of the Bloom Burton facility, the Company recorded finance expense of $58,562 representing the difference between the value of the facility at extinguishment and the consideration transferred to extinguish the Company’s financial obligations under the facility.

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

	Minimum Principal
At December 31, 2015	
Not later than one year	$ 4,000,000
Between one and five years	$ 29,256,250
	$ 33,256,250

(Expressed in United States dollars)

13. Subsidiary undertakings:

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

Subsidiary	**Jurisdiction of Incorporation**
CRH Medical Corporation	British Columbia, Canada
CRH Medical Corporation	Delaware, United States
CRH Anesthesia Management LLC	Delaware, United States
Gastroenterology Anesthesia Associates LLC	Georgia, United States
Macon Gastroenterology Anesthesia Associates LLC	Georgia, United States
NC GAA, PC	North Carolina, United States
CRH Anesthesia of Gainesville LLC	Florida, United States
CRH Anesthesia of Sarasota LLC	Florida, United States
CRH Anesthesia of Cape Coral LLC	Florida, United States
CRH Anesthesia of Knoxville LLC	Tennessee, United States
Knoxville Gastroenterology Anesthesia Associates LLC	Tennessee, United States

(a) The Company holds a 65% controlling interest in Macon Gastroenterology Anesthesia Associates LLC ("MGAA"). As a result of the operating agreement, the Company controls MGAA and 100% of the financial results of this subsidiary are included in the Company's consolidated financial statements.

The following tables summarize the financial information of MGAA, including fair value adjustments at acquisition but excluding tax and intercompany eliminations, as at December 31, 2015.

		2015
Cash and cash equivalents	$	263,004
Trade and other receivables		193,159
Intangible assets		7,071,556
		7,527,719
Accounts payable and accrued liabilities		83,314
Loans		285,714
		369,028
Member contributions		7,184,615
Retained deficit		(25,924)
		7,158,691
Total liabilities and equity	$	7,527,719

		2015
Anesthesia revenue	$	205,488
Anesthesia services expense		231,412
Net loss before tax	$	(25,924)

(Expressed in United States dollars)

13. Subsidiary undertakings (continued):

(b) The Company holds a 51% controlling interest in Knoxville Gastroenterology Anesthesia Associates LLC ("KGAA"). As a result, 100% of the financial results of this subsidiary are included in the Company's consolidated financial results.

The following tables summarize the financial information of KGAA, including fair value adjustments at acquisition but excluding tax and intercompany eliminations, as at December 31, 2015.

		2015
Cash and cash equivalents	$	439,082
Trade and other receivables		1,191,100
Prepaids		11,006
Intangible assets		12,732,686
		14,373,874
Accounts payable and accrued liabilities		273,992
Loans		166,994
		440,986
Member contributions		13,369,320
Retained earnings		563,568
		13,932,888
Total liabilities and equity	$	14,373,874

		2015
Anesthesia revenue	$	2,135,066
Anesthesia services expense		1,571,498
Net income before tax	$	563,568

14. Share capital:

(a) Authorized:

100,000,000 common shares without par value.

(b) Issued and outstanding – common shares:

On March 25, 2015, the Company closed a bought deal equity offering and over-allotment option of 7,000,000 and 1,050,000 common shares, respectively, at a price of $2.72 (CAD$3.40) per common share for gross proceeds of $21,865,893 (CAD$27,370,000). In connection with the offering, the underwriters were paid a 6% commission totaling approximately $1,311,954 (CAD$1,642,200) and received 241,500 broker warrants with a fair value of $249,149 (CAD$311,535). The broker warrants expire 18 months from the close date of the bought deal offering and have an exercise price of CAD$3.40. Additional share issuance costs of $299,230 (CAD$375,059) were incurred in relation to the offering.

On September 10, 2015, the Company issued 375,612 common shares with a total value of $1,422,652 in connection with its acquisition of Knoxville Gastroenterology Anesthesia Associates LLC and incurred share issuance costs of $6,164. Refer to note 4.

On September 17, 2015, the Company issued 140,795 common shares on the exercise of 140,795 broker warrants issued in connection with the Company's bought deal equity offering. Gross proceeds on exercise was $363,158 (CAD$478,703) and the fair value of the instruments exercised was $145,254 (CAD$181,625).

The Company has recorded a deferred tax asset of $420,511 in relation to those share issuance costs incurred in relation to the share offering and issuance of shares during the year. The deferred tax asset has been offset against share capital.

(c) Stock option plan:

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

(Expressed in United States dollars)

14. Share capital (continued):

(c) Stock option plan (continued):

A summary of the status of the plan as of December 31, 2015 and 2014 is as follows (options are granted in CAD and USD amounts calculated using prevailing exchange rates at December 31, 2015 and 2014):

	Number of options	Weighted average exercise price	
		CAD	USD
Outstanding, January 1, 2014	4,595,000	$ 0.80	$ 0.75
Issued	1,150,000	0.70	0.60
Exercised	(167,188)	0.96	0.83
Forfeited	(139,062)	0.75	0.65
Expired	(1,675,000)	0.95	0.82
Outstanding, December 31, 2014	3,763,750	0.70	0.60
Issued	-	-	-
Exercised	(758,189)	1.09	0.78
Forfeited	(31,250)	0.47	0.34
Expired	-	-	-
Outstanding, December 31, 2015	2,974,311	$ 0.60	$ 0.43

The following table summarizes information about the stock options outstanding at December 31, 2015:

Exercise price		Options outstanding				Options exercisable		
$CAD	$USD	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price ($CAD)	Weighted average exercise price ($USD)	Number of options	Weighted average exercise price ($CAD)	Weighted average exercise price ($USD)
0.28 – 0.58	0.18 – 0.42	1,502,124	1.11	0.51	0.37	1,430,874	0.52	0.38
0.59 – 0.85	0.43 – 0.61	1,432,187	8.04	0.68	0.49	640,312	0.68	0.49
0.86 – 1.20	0.62 – 0.86	40,000	0.28	1.13	0.81	40,000	1.13	0.81
		2,974,311	4.44	0.60	0.43	2,111,186	0.58	0.42

As at December 31, 2014:

Exercise price		Options outstanding				Options exercisable		
$CAD	$USD	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price ($CAD)	Weighted average exercise price ($USD)	Number of options	Weighted average exercise price ($CAD)	Weighted average exercise price ($USD)
0.28 – 0.58	0.24 – 0.50	1,780,000	2.11	0.51	0.44	1,257,500	0.52	0.45
0.59 – 0.85	0.51 – 0.73	1,458,750	9.04	0.68	0.58	288,125	0.67	0.58
0.86 – 1.90	0.74 – 1.64	525,000	0.72	1.39	1.19	515,626	1.39	1.20
		3,763,750	4.60	0.70	0.60	2,061,251	0.76	0.66

(Expressed in United States dollars)

14. Share capital (continued):

(c) Stock option plan (continued):

For the year ended December 31, 2015, the Company recognized $291,834 (2014 - $362,239), in compensation expense as a result of stock options awarded and vested. Compensation expense is recorded in the consolidated statement of operations and comprehensive income and is allocated to product sales expenses (note 6), corporate expenses (note 7) and anesthesia expenses (note 5) on the same basis as the allocations of cash compensation.

During the year ended December 31, 2015, no additional stock options were granted. The weighted average fair value of stock options granted during the year ended December 31, 2014 was $0.37. The estimated fair value of the stock options granted was determined using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2014
Expected life of options	6.25 years
Risk-free interest rate	1.76%
Dividend yield	0%
Volatility	63%
Pre-vest forfeiture rate	4.08%

There is no dividend yield because the Company does not pay, and does not plan to pay cash dividends on its common shares. The expected stock price volatility is based on the historical volatility of the Company's average monthly stock closing prices over a period equal to the expected life of each option grant. The risk-free interest rate is based on yields from Canadian Government Bond yields with a term equal to the expected term of the options being valued. The expected life of options represents the period of time that the options are expected to be outstanding based on historical data of option holder exercise and termination behavior.

(d) 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 or performance-based vesting conditions. Once the share units vest, the participant is entitled to receive the equivalent number of underlying common shares.

(Expressed in United States dollars)

14. Share capital (continued):

(d) Share unit plan (continued):

A summary of the status of the plan as of December 31, 2015 is as follows:

	Time based share units	Performance based share units
Outstanding, January 1, 2015	-	-
Issued	509,000	2,000,000
Exercised	-	(1,000,000)
Forfeited	-	-
Expired	-	-
Outstanding, December 31, 2015	509,000	1,000,000

The Company issued 509,000 share units ("Time based share units") during the year ended December 31, 2015. Of these units, 429,000 units vest over a 4 year term, with 50% vesting on the second anniversary and 25% vesting on each of the third and fourth anniversaries and 80,000 units vest over 1.25 years. The weighted average fair value per unit granted in the period was $2.90 (CAD$4.03) based on the market value of the underlying shares at the date of grant.

The remaining 2,000,000 share units ("Performance based share units") vest upon the Company meeting certain market based performance targets and expire on February 20, 2020. The weighted average fair value of these units at the date of grant was $1.67 (CAD$2.09) per unit. The fair value of these share units was calculated as of the grant date using a binomial pricing model with the following weighted average assumptions:

	2015
Risk-free interest rate	0.61%
Expected volatility	60.5%
Pre-vest forfeiture rate	0%
Weighted average share price	CAD$2.45

During the year ended December 31, 2015, 1,000,000 of those units which vest upon the Company meeting certain market based performance targets vested. Upon vesting, the Company has recognized the expense relating to these units, in full, and issued 1,000,000 common shares.

During the year ended December 31, 2015, the Company recognized $2,457,618 (2014 - $nil), in compensation expense in relation to the granting and vesting of share units.

(Expressed in United States dollars)

14. Share capital (continued):

(e) Earnings per share:

The calculation of basic earnings per share for the years ended December 31, 2015 and 2014 is as follows:

	2015			2014		
	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	$ 3,076,191	67,870,529	$ 0.045	$ 1,498,153	48,876,822	$ 0.031
Share options		2,701,476			958,554	
Share units		-			-	
Broker warrants		200,336			-	
Diluted	$ 3,076,191	70,772,341	$ 0.043	$ 1,498,153	49,835,377	$ 0.030

For the year ended December 31, 2015, 661,899 options (2014 – 2,805,196) and 1,755,961 share units (2014 – nil) were excluded from the diluted weighted average number of common shares calculation.

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

(Expressed in United States dollars)

15. Income taxes:

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

		2015		2014
Current tax expense	$	1,136,028	$	193,612
Deferred tax expense (recovery):				
Recognition of previously unrecognized temporary differences		(2,600,786)		(548,082)
Origination and reversal of temporary differences		(1,401,096)		262,950
Change in enacted tax rates and other		(47,116)		(52,199)
Total tax recovery	$	(2,912,970)	$	(143,719)

The reconciliation of income tax computed at statutory tax rates to income tax expense, using a 26% (2014 – 26%) statutory rate, is:

		2015		2014
Tax expense at statutory income tax rates	$	90,183	$	352,153
Recognition of previously unrecognized temporary differences		(2,600,786)		(548,082)
Permanent differences		123,386		82,694
Foreign income taxed at different rates		(469,839)		(36,172)
Other		(55,914)		5,688
Tax recovery	$	(2,912,970)	$	(143,719)

(b) Recognized deferred tax assets and liabilities:

During the year ended December 31, 2015, the Company recognized a deferred tax asset of $420,511 with respect to share issuance costs directly within equity.

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

		2015		2014
Deferred tax assets:				
Non-capital losses	$	724,802	$	489,111
Property and equipment		-		12,186
Finance related costs		350,543		68,182
Reserves		941,352		131,885
Share transaction costs		357,434		-
Stock-based compensation		128,837		
Earn-out obligation		4,862,894		2,901,974
Deferred tax liabilities:				
Intangible assets		(1,466,546)		(2,522,387)
Property and equipment		(1,880)		-
Unrealized foreign exchange		(397,743)		(50,768)
Net deferred tax asset	$	5,499,693	$	1,030,183

(Expressed in United States dollars)

15. Income taxes (continued):

(c) Unrecognized deferred tax assets and liabilities:

During the year ended December 31, 2015, the Company recognized deferred income tax assets relating to its US net operating losses. Significant components of the Company's unrecognized deferred tax assets and liabilities as at December 31, 2014 are as follows:

		2015		2014
Deferred income tax assets:				
Net operating losses	$	-	$	7,430,818
Deferred tax asset not recognized	$	-	$	7,430,818

At December 31, 2015, the Company has tax losses of $nil (2014 - $1.9 million) from its Canadian operations and $2.1 million (2014 - $7.4 million) from its U.S. operations, available to reduce future years' income taxes. The U.S. tax losses expire from 2031 and beyond.

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

16. Capital disclosures:

The Company's objective in managing capital is to safeguard its ability to continue as a going concern and to sustain future development of the business. In the management of capital, the Company includes shareholders' equity, excluding accumulated other comprehensive loss. The Company's objective is met by retaining adequate equity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. In order to maintain or adjust its capital structure, the Company may issue new shares. The Board of Directors does not establish quantitative return on capital criteria for management. The Company is not subject to any externally imposed capital requirements, but is subject to debt covenants in respect of its notes payable and bank indebtedness (note 12). The Company's overall strategy with respect to capital management remains unchanged from the year ended December 31, 2014.

		2015		2014
Shareholders' equity attributable to shareholders, excluding other comprehensive income	$	47,791,917	$	18,854,134

(Expressed in United States dollars)

17. Net finance expense

Recognized in earnings in the years ended December 31:

	2015	2014
Finance income:		
Foreign exchange gain	$ (2,737,964)	$ (410,208)
Total finance income	$ (2,737,964)	$ (410,208)
Finance expense:		
Interest and accretion expense on borrowings	$ 6,251,617	$ 641,991
Accretion expense on earn-out obligation	1,272,494	101,928
Amortization of deferred financing fees	749,378	67,432
Net change in fair value of financial liabilities at fair value through earnings	5,731,294	-
Extinguishment of notes payable	1,817,509	
Financing fees related to financial instruments classified as fair value through earnings	-	1,222,316
Total finance expense	$ 15,822,292	$ 2,033,667
Net finance expense	$ 13,084,328	$ 1,623,459

(Expressed in United States dollars)

18. Financial instruments:

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, employee benefit obligations, short term advances, loans, notes payable and bank indebtedness, and the Company's earn-out obligation. The fair values of these financial instruments, except certain of the notes payable balances and the earn-out obligation, approximate carrying value because of their short-term nature. The Knight debt (note 12) and the earn-out obligation are classified as financial liabilities 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.

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

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

The following financial assets and liabilities are measured at fair value on a recurring basis using quoted prices in active markets for identifiable assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

December 31, 2015			Fair Value	
	Carrying Value	Level 1	Level 2	Level 3
Financial liabilities				
Notes payable	$ -	-	-	$ -
Earn-out obligation	$ 12,468,958	-	-	$ 12,468,958

December 31, 2014			Fair Value	
	Carrying Value	Level 1	Level 2	Level 3
Financial liabilities				
Notes payable	$ 27,005,493	-	-	$ 27,005,493
Earn-out obligation	$ 7,440,960	-	-	$ 7,440,960

The Company uses a probability weighted valuation technique in calculating the fair value of the Knight note payable and the earn-out obligation. This valuation technique includes inputs relating to estimated cash outflows under each arrangement and the use of a discount rate appropriate to the Company. As at December 31, 2015, the Company has used a discount rate of 4.42% in the valuation of its earn-out obligation. As the Knight Note was extinguished on November 25, 2015, no valuation of this note was required as at December 31, 2015.

18. Financial instruments (continued):

The Company evaluates the inputs into the probability weighted valuation technique at each reporting period. The following describes the amendments made in the valuation of the above financial liabilities during the year ended December 31, 2015.

During the year ended December 31, 2015, the Company revised certain of the assumptions underlying the fair value calculation of the earn-out obligation to account for changes in the underlying credit risk of the Company. The Company downward adjusted its discount rate from 18% to 4.42%. This revision resulted in an increase of $3,755,504 to the fair value of the earn-out obligation with the impact of the adjustments recorded through finance expense in the year.

Prior to extinguishment, the Company revised certain of the probabilities and assumptions underlying the fair value calculations of its Knight note to account for changes in the underlying credit risk of the Company and for changes in estimated cash outflows. The Company downward adjusted its discount rate from 18% to 14.67% and revised certain of its estimates around cash outflows under this instrument. These revisions resulted in an increase of $1,975,790 to the fair value of the Knight note with the impact of the adjustments recorded through finance expense in the year.

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 $336,832. During the year ended December 31, 2015, the Company recorded accretion expense of $3,084,353 (2014 - $362,834) and $1,272,494 (2014 - $101,928), respectively, in relation to these liabilities, reflecting the change in fair value of the liabilities that is attributable to credit risk.

(Expressed in United States dollars)

18. Financial instruments (continued):

Reconciliation of level 3 fair values:

	Notes Payable	Earn-out Obligation	Total
Balance as at January 1, 2015	$ 27,005,493	$ 7,440,960	$34,446,453
Repayment of principal and interest and extinguishment costs	(33,864,660)	-	(33,864,660)
Recorded in finance expense:			
Accretion expense	3,084,353	1,272,494	4,356,847
Fair value adjustment	1,975,790	3,755,504	5,731,294
Loss on extinguishment	1,799,024	-	1,799,024
Balance as at December 31, 2015	$ -	$12,468,958	$12,468,958

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

(a) Credit risk:

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

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

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

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

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

(Expressed in United States dollars)

18. Financial instruments (continued):

(a) Credit risk (continued):

		2015		2014
Total trade receivables	$	9,375,714	$	3,697,600
Less: allowance for doubtful accounts		(2,344,684)		(363,138)
Total trade receivables, net	$	7,031,030	$	3,334,462
Of which:				
Current	$	4,708,391	$	3,469,199
Less than 60 days		1,084,600		159,180
Less than 90 days		766,143		44,233
90 days or greater		2,816,580		24,988
Total trade receivables	$	9,375,714	$	3,697,600

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

		2015		2014
Cash and cash equivalents	$	3,572,344	$	4,133,663
Trade receivables		7,031,030		3,334,462
	$	10,603,374	$	7,468,125
Continuity of allowance for bad debts:				
Beginning balance	$	363,138	$	26,606
Write-offs		(14,429)		(14,048)
Provision		1,995,975		350,580
Total allowance for bad debts	$	2,344,684	$	363,138

(b) Liquidity risk:

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

At December 31, 2015			Maturity			
		TOTAL	Less than one year	One to three years	Four to five years	After five years
Trade and other payables	$	3,034,363	$ 3,034,363	$ -	$ -	$ -
Employee benefits		142,576	142,576	-	-	-
Notes payable and bank indebtedness		30,738,466	3,818,048	26,920,418	-	-
Earn-out obligation		12,468,958	-	12,468,958		
Loans		266,994	266,994	-	-	-
	$	46,651,357	$ 7,261,981	$ 39,389,376	$ -	$ -

18. Financial instruments (continued):

(b) Liquidity risk (continued):

At December 31, 2014		Maturity			
	TOTAL	Less than one year	One to three years	Four to five years	After five years
Trade and other payables	$ 6,051,213	$ 6,051,213	$ -	$ -	$ -
Employee benefits	105,930	105,930	-	-	-
Short term advances	262,482	262,482	-	-	-
Notes payable	46,122,731	6,613,300	21,338,826	18,170,605	-
Earn-out obligation	7,440,960	-	-	7,440,960	
	$ 59,983,316	$ 13,032,925	$ 21,338,826	$ 25,611,565	$ -

(c) Market risk:

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

(*i*) Foreign currency risk:

The majority of the Company's sales and purchases are made in U.S. dollars. However, certain of the Company's revenues and expenses are denominated in Canadian dollars. Foreign currency risk reflects the risk that the Company's earnings will be impacted by fluctuations in exchange rates. During the year ended December 31, 2015, approximately 0.4% (2014 – 1.4%) of the Company's sales were made in Canadian dollars and approximately 14% (2014 - 35%) of expenses were incurred in Canadian dollars. With all other variables held constant, a 10% point increase in the value of the Canadian dollar relative to the U.S. dollar would have decreased net income by approximately $309,000 (2014 - $293,000) for the year ended December 31, 2015. There would be an equal and opposite impact on the net income with a 10% point decrease in the value of the Canadian dollar relative to the U.S. dollar.

At December 31, 2015, the Company has Canadian dollar denominated working capital as well as a Canadian dollar denominated loan. Foreign exchange gains and losses arising from the revaluation of these balances are included in earnings. With all other variables held constant, a 10% point increase in the value of the Canadian dollar relative to the U.S. dollar would have decreased net income by approximately $1,454,000 (2014 - $2,561,000) for the year ended December 31, 2015, based on the net working capital position and loan balances held in Canadian dollars. There would be an equal and opposite impact on the net income with a 10% point decrease in the value of the Canadian dollar relative to the U.S. dollar.

The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures and the resulting volatility of the Company's earnings. The Company manages this risk by pricing sales in U.S. dollars or the currency of the expenses being incurred. The Company has not entered into any forward foreign exchange contracts as at December, 31 2015.

18. Financial instruments (continued):

(c) Market risk (continued):

(*i*) Foreign currency risk (continued):

The Company is exposed to currency risk on the following:

Expressed in U.S. dollar equivalent	2015	2014
Cash and cash equivalents	$ 71,378	$ 67,521
Trade and other receivables	66,094	32,452
Trade and other payables and other financial liabilities	501,888	771,893
Notes payable	14,179,589	16,418,166

(*ii*) Interest rate risk:

The Company's policy is to invest cash and equivalents at floating rates of interest, in order to maintain liquidity, while achieving a satisfactory return for the Company. Fluctuations in interest rates impact the value of cash equivalents. The Company's interest bearing liabilities are fixed rate instruments, except for its Scotia Facility (note 12). Fluctuations in market interest rates will have no significant impact on the Company's fixed rate debt instruments, but may impact the fair value of such instruments at any given date. With respect to the Company's Scotia Facility, with all other variables held constant, a 10% point increase in the interest rate would have reduced net income by approximately $5,000 (2014 - $nil) for the year ended December 31, 2015. There would be an equal and opposite impact on the net income with a 10% point decrease.

19. Commitments and contingencies:

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

Less than one year	$ 119,043
One to three years	331,452
Four to five years	36,828
Thereafter	-
Total	$ 487,323

Rent expense for the year ended December 31, 2015 was $108,783 (2014 - $75,878).

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

20. Related party transactions:

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

(a) Related party transactions:

The Company paid or accrued fees of $210,916 (2014 - $173,422) to Directors of the Company. Additionally, the Company made product sales totaling $36,800 (2014 - $118,198) to four companies owned or controlled by three of the Company's Directors. The transaction terms with related parties may not be on the same price as those that would result from transactions among non-related parties.

One of the directors of the Company is an indirect shareholder of KGAA.

(b) Compensation of key management personnel:

Key management personnel compensation, including directors, is as follows:

	2015	2014
Salaries, directors' fees and other benefits	$ 988,647	$ 1,221,387
Share-based payments	2,295,237	289,293
	$ 3,283,884	$ 1,510,680

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

(*ii*) There were no post-employment, termination or other long-term benefits paid during the years ending December 31, 2015 and 2014.

21. 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 years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Revenue:		
Canada and other	$ 177,375	$ 164,038
United States	45,871,105	11,820,132
Total	$ 46,048,480	$ 11,984,170

(Expressed in United States dollars)

21. Segmented information (continued):

The Company's property and equipment, intangibles and other assets are located in the following geographic regions as at December 31, 2015 and 2014:

	2015	2014
Property and equipment:		
Canada	$ 269,350	$ 129,864
United States	15,356	-
Total	$ 284,706	$ 129,864
Intangible assets:		
Canada	$ 66,397	$ 100,767
United States	87,240,870	65,503,962
Total	$ 87,307,267	$ 65,604,729
Other assets:		
Canada	$ -	$ 1,550,940
United States	-	-
Total	$ -	$ 1,550,940

The financial measures reviewed by the Company's Chief Operating Decision Maker are presented below for the years ended December 31, 2015 and 2014. The Company does not allocate expenses related to corporate activities. These expenses are presented within "Other" to allow for reconciliation to reported measures.

	2015			
	Anesthesia services	Product sales	Other	Total
Revenue	$ 36,496,035	$ 9,552,445	$ -	$ 46,048,480
Operating costs	23,103,493	4,369,144	5,144,657	32,617,294
Operating income (loss)	$ 13,392,542	$ 5,183,301	$ (5,144,657)	$ 13,431,186

	2014			
	Anesthesia services	Product sales	Other	Total
Revenue	$ 3,386,073	$ 8,598,097	$ -	$ 11,984,170
Operating costs	1,713,262	3,970,930	3,322,085	9,006,277
Operating income (loss)	$ 1,672,811	$ 4,627,167	$ (3,322,085)	$ 2,977,893