CRH Medical Corporation

578 – 999 Canada Place
Vancouver, BC
V6C 3E1

Year Ended December 31, 2016
Financial Report

Trading Information: TSE (Symbol "CRH")
NYSE MKT (Symbol "CRHM")
For Information Contact: Richard Bear, Chief Financial Officer
Email: info@crhmedcorp.com
Web: www.crhmedcorp.com

For further information about CRH Medical Corporation, please visit the Company website at www.crhmedcorp.com or www.sedar.com or email us at info@crhmedcorp.com.

CRH MEDICAL CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2016

The following management discussion and analysis ("MD&A") should be read in conjunction with CRH Medical Corporation's (the "Company" or "CRH") audited annual financial statements for the years ended December 31, 2016 and 2015. The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Unless otherwise specified, all financial data is presented in United States dollars. This MD&A is as of February 22, 2017.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Information included or incorporated by reference in this report may contain forward-looking statements. This information may involve known and unknown risks, uncertainties, and other factors which may cause our actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "plan," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology. Certain risks underlying our assumptions are highlighted below; if risks materialize, or if assumptions prove otherwise to be untrue, our results will differ from those suggested by our forward looking statements and our results and operations may be negatively affected. Forward looking statements in this report include statements regarding profitability, additional acquisitions, increasing revenue and Operating EBITDA, continued growth of our business in line with historical growth rates, trends in our industry, financing plans, our anticipated needs for working capital and leveraging our capabilities. Actual events or results may differ materially from those discussed in forward-looking statements. There can be no assurance that the forward-looking statements currently contained in this report will in fact occur. The Company bases its forward-looking statements on information currently available to it. The Company disclaims any intent or obligations to update or revise publicly any forward-looking statements whether as a result of new information, estimates or options, future events or results or otherwise, unless required to do so by law.

Forward-looking information reflects current expectations of management regarding future events and operating performance as of the date of this document. Such information involves significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in forward-looking information, including, without limitation: our need for additional financing and our estimates regarding our capital requirements, future revenues and profitability; if our GI Anesthesia partner volume does not grow as expected, or decreases, this could impact revenue and profitability; If we are unable to identify GI Anesthesia businesses to acquire, or are unable to complete transactions, this could impact our future revenue growth and profitability; unfavourable economic conditions could have an adverse effect on our business; risks related to covenants and events of default under the Company's Credit Facilities;

risks related to increased leverage resulting from incurring additional debt; 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; 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; regulatory changes that are unfavorable in the states where our operations are concentrated; 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; risks related to the Affordable Care Act (the "ACA") in terms of patient volume and reimbursement and the corresponding effect on our business; 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 United States antitrust regulations; risks related to record keeping and confidentiality by our affiliated physicians; our ability to recruit and retain qualified physicians to provide our services; risks related to our affiliated physicians leaving our affiliated ASCs; our ability to enforce non-competition and other restrictive covenants in our agreements; Contracts with ASCs, such as those acquired with Gastroenterology Anesthesia Associates, LLC, or other customers may be terminated, or may not be renewed, by the counterparty; risks related to corporate practice of medicine and our ability to renew and maintain agreements with anesthesiologists and other contractors; our ability and forecasts of expansion and the Company's management of anticipated growth; risks related to our dependence on complex information systems; our senior management has been key to our growth and we may be adversely affected if we are unable to retain them, conflicts of interest develop 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; various risks associated with legal, regulatory or investigative proceedings; risks associated with governmental investigations into marketing and other business practices; we are subject to health and safety risks within our industry; our ability to successfully identify and complete future transactions and integrate our acquisitions; anti-takeover provisions create risks related to lost opportunities; we may not continue to attract gastroenterologists ("GIs") and other licensed providers to purchase and use the CRH O'Regan System or to provide our services resulting in slower than expected growth; risks associated with the trading of our common shares on a public marketplace which could result in changes to stock prices unrelated to our performance; risks related to adverse movements in foreign currency exchange rates; risks related to maintaining our foreign private issuer status enabling us to maintain lower costs of compliance; risks related to writing-off intangible assets and the associated charges to net income; risks related to the reduction in the reimbursement of anesthesia procedure codes; changes in our effective income tax rates; risks related to our ability to manage third-party service providers; risks related to the failure of our employees and third-party contractors to appropriately record or document services that they provide; and risks related to criminal or civil sanctions in connection with failure to comply with privacy regulations regarding the use and disclosure of patient information. For a complete discussion of the Company's business including the assumptions and risks set out above, see the Company's annual information form which is available on SEDAR at www.sedar.com.

OVERVIEW

CRH Medical Corporation is a North American company focused on providing physicians with innovative services and products for the treatment of gastrointestinal diseases. In 2014, CRH acquired a full service gastroenterology anesthesia company, Gastroenterology Anesthesia Associates, LLC ("GAA"), which provides anesthesia services for patients undergoing endoscopic procedures and has complemented this acquisition with nine additional acquisitions of anesthesia companies since GAA. Anesthesia assisted endoscopies make these procedures more comfortable for patients and allow gastroenterologists to perform more procedures. 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's product distribution strategy focuses on physician education, patient outcomes, and patient awareness. The Company's 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.

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

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RECENT EVENTS

During 2016 and thus far in 2017, the Company continued in its goal of consolidating the highly fragmented gastroenterology anesthesia provider business by acquiring three additional gastroenterology anesthesia services providers. These acquisitions were financed, in part, via an extension of the Company's syndicated credit facility with the Bank of Scotia (the "Scotia Facility") to $55,000,000.

DDAB, LLC ("DDAB") – February 2017

In February 2017, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire a 51% interest in DDAB LLC ("DDAB"), a gastroenterology anesthesia services provider in Decatur, Georgia. The purchase consideration, paid via cash, for the acquisition of the Company's 51% interest was $4,089,791. The preliminary estimate of the exclusive professional service agreement acquired as part of this acquisition is $8,019,198.

Austin Gastroenterology Anesthesia Associates, PLLC ("AGAA") – May 2016

In May 2016, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire 51% of the ownership interest in Austin Gastroenterology Anesthesia Associates, PLLC ("AGAA"), an anesthesia provider servicing two gastroenterology ambulatory surgical centers in Texas.

The total purchase price under the asset contribution and exchange agreement was $17,200,000 and was paid via a combination of cash and deferred cash consideration.

Community Anesthesia, PLLC (“Community”) – June 2016

In June 2016, a subsidiary of the Company entered into a membership interest purchase agreement to acquire 65% of the ownership interest of Community Anesthesia, PLLC (“Community”), a gastroenterology anesthesia provider servicing four ambulatory surgical centers in Massachusetts. The total purchase price under the membership interest purchase agreement was $13,636,639, paid via cash.

Arapahoe Gastroenterology Anesthesia Associates, LLC (“Arapahoe”) – June 2016

At the end of June 2016, a subsidiary of the Company entered into an asset purchase and exchange agreement to acquire 51% of the ownership interest of Arapahoe Gastroenterology Anesthesia Associates, LLC (“Arapahoe”), a gastroenterology anesthesia provider serving one ambulatory surgical center in Colorado. The total purchase price under the asset purchase agreement was $3,700,000, paid via cash.

Scotia Facility Amendment – June 2016

In June 2016, the Company amended its credit facility with the Bank of Nova Scotia. The facility was amended to include a syndicate with US Bank and was increased from $33,000,000 to $55,000,000. As at December 31, 2016, the Company had drawn $29,000,000 under the facility.

The contribution from anesthesia acquisitions completed in the prior year and in the current year continue to have a positive impact on the Company. Total anesthesia revenue for the year ended December 31, 2016 was $67,821,879, an increase of $31,325,844 from 2015. The contribution from anesthesia acquisitions completed in the prior year and in the first half of 2016 has also had a positive impact, increasing net income attributable to shareholders to $10,564,233 for the year from $3,076,191 in 2015.

Product revenue remains strong, increasing by 10% in contrast with 2015. This is a reflection of the continuing successful execution of the Company’s direct to physician program.

NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

SELECTED FINANCIAL INFORMATION

	2016	2015	2014
Anesthesia services revenue	$ 67,821,879	$ 36,496,035	$ 3,386,073
Product sales revenue	10,532,753	9,552,445	8,598,097
Total revenue	**78,354,632**	**46,048,480**	**11,984,170**
Total operating expenses - unadjusted	53,599,792	32,617,293	9,006,277
Adjusted operating expenses[1]			
Anesthesia services	29,767,269	15,528,409	1,255,193
Product sales	4,059,858	3,723,633	3,868,830
Corporate	3,037,177	2,764,803	2,164,053
Total Adjusted operating expenses[1]	**36,864,304**	**22,016,845**	**7,288,076**
Operating income	**24,754,840**	**13,431,186**	**2,977,893**
Adjusted operating EBITDA[2] – non-controlling interest[3]	9,119,211	607,289	-
Adjusted operating EBITDA[2] - shareholders of the Company	**32,371,117**	**23,424,346**	**4,696,094**
Adjusted operating EBITDA[2] - total	**41,490,328**	**24,031,635**	**4,696,094**
Net and comprehensive income	**$ 16,076,328**	**$ 3,259,828**	**$ 1,498,153**
Attributable to:			
Shareholders of the Company	10,564,233	3,076,191	1,498,153
Non-controlling interest[3]	5,512,095	183,637	-
Adjusted Operating EBITDA[2] per share attributable to shareholders:			
Basic	$ 0.451	$ 0.345	$ 0.096
Diluted	$ 0.436	$ 0.331	$ 0.094
Earnings per share attributable to shareholders:			
Basic	$ 0.147	$ 0.045	$ 0.031
Diluted	$ 0.142	$ 0.043	$ 0.030
Total assets	$ 163,538,882	$ 104,495,278	$ 78,964,290
Total non-current liabilities	$ 54,523,444	$ 39,389,376	$ 46,950,391
Total liabilities	$ 66,612,595	$ 47,520,913	$ 60,176,928

[1] Adjusted operating expenses: 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] Adjusted 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 – three months and year ended December 31, 2016

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, 2016 were $78,354,632 compared to $46,048,480 for the year ended December 31, 2015. Revenues for the three months ended December 31, 2016 were $25,822,103 compared to $13,927,531 for the comparable period in 2015. The increase in revenues is mainly attributable to revenue contributions from the anesthesia service businesses acquired by the Company in the first, third and fourth quarters of 2015 in addition to the acquisitions completed in May and June 2016.

Revenues from anesthesia services for the year ended December 31, 2016 were $67,821,879 compared to $36,496,035 for the prior year. Revenues for the three months ended December 31, 2016 were $23,008,147 compared to $11,329,699 for the three months ended December 31, 2015. As above, the increases above are a result of the Company's anesthesia acquisitions throughout 2015 and 2016. The Company expects revenue from anesthesia services to continue to increase through organic growth in patient cases and deployment of available capital for future acquisitions.

For the twelve months ended December 31, 2016 there were no material changes in reimbursement rates for any of the payors related to our anesthesia business. There was, however in the first quarter of the year, a change in the payor mix in our GAA business as a result of the renewal process that individuals and companies go through each year in selecting their plans and providers. It is normal that there can be payor mix changes, especially due to the nature of the renewal process, and such changes can have either a positive or negative impact or no impact at all on our business. With respect to GAA, the average revenue per case declined by 9% compared to 2015, which was offset by an increase in patient cases of 6%. The Company's continued expansion of its anesthesia business has and is expected, in future, to mitigate the effect these kinds of changes in payor mix can have on our financial results.

In the year ended December 31, 2016, the anesthesia services segment serviced 141,020 patient cases. In the fourth quarter of the year, the anesthesia services segment serviced 45,041 patient cases.

The tables below summarizes our approximate payor mix as a percentage of patient cases for the years ended December 31, 2016 and 2015 and for the fourth quarters of 2016 and 2015:

	Three months ended		Years ended	
Payor	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Medicare	23.7%	27.8%	27.4%	27.2%
Medicaid	2.4%	3.2%	2.8%	4.1%
Commercial and other	73.9%	69.0%	69.8%	68.7%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

In the table above, the year ended December 31, 2015 is primarily comprised of GAA payor data due to the timing of acquisitions in 2015. As a result, 2016 is not directly comparable to 2015.

Due to the inherent nature of insurance providers and patient deductibles, the anesthesia business is impacted by the seasonality of patient cases. Seasonality by quarter for 2016 is presented below:

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

In the future, the Company expects anesthesia services revenue to continue to increase primarily through acquisitions and through organic growth of previously acquired businesses. Seasonality is driven by both patient cases and seasonal payor mix. As a result, revenue per patient will fluctuate quarterly.

Revenues from product sales for the year ended December 31, 2016 were $10,532,753 compared to $9,552,445 for 2015. Product sales for the fourth quarter of 2016 were $2,813,956 compared to $2,607,832 for the fourth quarter of 2015. The 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, 2016 the Company has trained 2,414 physicians to use the O'Regan System, representing 930 clinical practices. This compares to 2,175 physicians trained, representing 811 clinical practices, as of December 31, 2015.

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

Total adjusted operating expenses

For the year ended December 31, 2016, total adjusted operating expenses were $36,864,304 compared to $22,016,845 for the year ended December 31, 2015. Total adjusted operating expenses were $11,321,510 for the fourth quarter of 2016 compared to $6,674,324 for the fourth quarter of 2015. The increases in adjusted operating expenses are primarily related to adjusted operating expenses in the anesthesia services business. Factors impacting the fluctuation of total adjusted operating expenses are consistent with those impacting operating expenses.

Anesthesia services adjusted operating expenses for the year ended December 31, 2016 were $29,767,269, compared to $15,528,409 for fiscal 2015. In the fourth quarter of 2016, anesthesia adjusted operating expenses were $9,492,140 compared to anesthesia adjusted operating expenses of $5,061,037 in the fourth quarter of 2015. Anesthesia services adjusted operating expenses primarily include labor related costs for certified registered nurse anesthetists and MD anesthesiologists, medical drugs and supplies, and billing and management related expenses. The Company's first anesthesia acquisition was in the fourth quarter of 2014, with further acquisitions completed in 2015 and in 2016. As a result, 2016 is not directly comparable to 2015, with the majority of the increase relating to operating expenses for acquired companies.

Product sales adjusted operating expenses for the year ended December 31, 2016 were $4,059,858 compared to $3,723,633 for the year ended December 31, 2015. For the fourth quarter of 2016, product sales adjusted operating expenses were $1,083,481 compared to $949,743 for the fourth quarter of 2015. The increase in adjusted operating expenses compared to 2015 is a reflection of increased product cost and support, employee related costs and professional fees resulting from increased sales. Product sales expenses primarily include employee wages, product cost and support, marketing programs, office expenses, professional fees, and insurance. In the future, the Company expects adjusted operating expenses to increase as the Company continues to invest in activities designed to increase demand for training and use of the CRH O'Regan System.

Corporate adjusted operating expenses for the year ended December 31, 2016 were $3,037,177 compared to $2,764,803 for 2015. In the fourth quarter of 2016, corporate adjusted operating expenses were $745,889, compared to $663,544 for the fourth quarter of 2015. The increase in corporate expenses from 2015 primarily reflects an increase in employee related costs and insurance, offset by a reduction in professional fees, and, in general, is reflective of the additional activities incurred in support of the Company's expanded service offering.

Operating Income

Operating income for the year ended December 31, 2016 was $24,754,840 compared to $13,431,186 for fiscal 2015. Contributing to the improved operating income for the year is an increase in total adjusted operating EBITDA of $17,458,693, less incremental costs related to the amortization of acquired professional service agreements relating to acquisitions completed in 2015 and 2016 of $8,031,985, additional acquisition expenses of $65,726 and a decrease in stock based compensation expense of $1,372,775.

Operating income for the fourth quarter of 2016 was $9,173,148 compared to $4,672,629 for the three months ended December 31, 2015, an increase of $4,500,519. Contributing to the improved operating income is the increase in total adjusted operating EBITDA of $7,237,386, less incremental costs related to the amortization of acquired professional service agreements relating to acquisitions completed in 2015 and 2016 of $2,526,406, an increase in stock based compensation expense of $264,869, offset by a decrease in acquisition expenses of $65,708. Operating income has increased by $2,578,616 from the immediately preceding quarter.

Anesthesia operating income for the year ended December 31, 2016 was $22,591,893, an increase of $9,199,351 from fiscal 2015. Anesthesia operating income for the three months ended December 31, 2016 was $8,622,390, an increase of $4,681,446 from the fourth quarter of 2015. This is primarily reflective of the additional operating income generated by the acquisitions completed in 2015 and the acquisitions completed in 2016.

Product operating income for the year ended December 31, 2016 was $6,029,643, an increase of $846,342 from the year ended December 31, 2015. Product operating income for the three months ended December 31, 2016 was $1,590,453, an increase of $14,003 from the comparable period of 2015. The increase is primarily a result of the increased revenue in the year and quarter ended December 31, 2016, offset by increases in product expenses in the respective periods.

Adjusted operating EBITDA

Adjusted operating EBITDA attributable to shareholders of the Company for the year ended December 31, 2016 was $32,371,117, an increase of $8,946,771 from 2015. Adjusted operating EBITDA attributable to shareholders of the Company for the quarter ended December 31, 2016 was $10,281,382, an increase of $3,483,989 from the fourth quarter of 2015. The increase in adjusted operating EBITDA is primarily a reflection of the adjusted operating EBITDA contribution from the Company's anesthesia services providers acquired in the third and fourth quarters of 2015 and in the second quarter of 2016.

Adjusted operating EBITDA attributable to non-controlling interest was $9,119,211 for the year ended December 31, 2016. This comprises the non-controlling interests' share of revenues of $14,945,855 and adjusted operating expenses of $5,826,644. Adjusted operating EBITDA attributable to non-controlling interest was $4,219,211 for the fourth quarter of 2016. This comprises the non-controlling interests' share of revenues of $6,535,774 and adjusted operating expenses of $2,316,563.

Total adjusted operating EBITDA was $41,490,328 for the year ended December 31, 2016, an increase of $17,458,693 from the year ended December 31, 2015. Total adjusted operating EBITDA was $14,500,593 for the quarter ended December 31, 2016, an increase of $7,237,386 from the quarter ended December 31, 2015. Total adjusted operating EBITDA has increased by $2,845,256 from the third quarter of 2016.

Net finance (income) / expense

As a result of the Company's debt facilities, the Company has recorded net finance expense of $4,423,362 for the year ended December 31, 2016, compared to net finance expense of $13,084,329 for the year ended December 31, 2015. For the three months ended December 31, 2016, the Company recorded net finance expense of $1,175,492, compared to net finance expense of $5,914,145 in the fourth quarter of 2015. Net finance expense is comprised of both interest and other debt related expenses, including fair value adjustments and costs related to debt extinguishment, as well as foreign exchange gains and losses on the Crown debt which is denominated in Canadian dollars and the related cross currency swap the Company entered into on the Crown debt on January 21, 2016. The cross currency swap locks in the repayment of the Crown debt principal and interest at a Canadian dollar to U.S. dollar rate of 1.448.

Cash interest paid in the year ended December 31, 2016 was $3,135,765 compared to $5,903,690 in 2015. Though the Company's facility has increased in size and use, the Company's cash interest has decreased due to the lower interest rates experienced on its Scotia facility. Cash interest paid in the three months ended December 31, 2016 was $709,239 compared to $2,313,786 for the three months ended December 31, 2015.

In the year ended December 31, 2016, the Company recorded an exchange gain of $1,007,673 in relation to the Crown note and the cross currency swap, compared to an exchange gain of $2,737,963 recorded in 2015. Excluding the impact of the exchange gain in the period, the finance expense for the year ended December 31, 2016 was $5,431,035 compared to $15,822,292 recorded in 2015. Finance expense, excluding fair value adjustments, costs related to debt extinguishment and exchange gains, was $5,226,077, compared to $8,273,489 for the year ended December 31, 2015. The fair value adjustment recorded in the year ($204,958) resulted from changes in estimates underlying the Company's earn-out obligation. After excluding for fair value adjustments and foreign exchange, the primary cause of the decrease in finance expense from 2015 to 2016 is the extinguishment of the Knight and Bloom Burton notes at the end of 2015. In general, the decrease in finance expense is a reflection of the lower interest rate on the Scotia Facility in contrast to the interest rates charged on the Knight and Bloom Burton notes in 2015 as well as a decrease in the fair value adjustments recorded and the absence of debt extinguishment costs in 2016.

In the three months ended December 31, 2016, the Company recorded an exchange loss of $18,756 in relation to the Crown note and the cross currency swap in contrast to the exchange gain of $543,123 recorded in the last quarter of 2015. Excluding the impact of the exchange gain in the period, the finance expense for the three months ended December 31, 2016 was $1,156,737, compared to $6,457,267 for the three months ended December 31, 2015. Finance expense, excluding fair value adjustments and exchange gains, was $1,293,504, compared to $3,519,069 for the fourth quarter of 2015. The fair value adjustment recorded in the quarter ended December 31, 2016 ($136,767) resulted from changes in estimates underlying the Company's earn-out obligation.

Income tax expense

For the year ended December 31, 2016, the Company recorded an income tax expense of $4,255,150 compared to an income tax recovery of $2,912,970 for the year ended December 31, 2015. For the three months ended December 31, 2016, the Company recorded an income tax expense of $1,643,474 compared to an income tax recovery of $1,540,755 for the quarter ended December 31, 2015. The expense experienced in 2016 is a reflection of taxable income generated in both Canada and the US. Income tax expense relates only to income attributable to the Company's shareholders. In 2016, the effective tax rate in respect of this income was 28%.

Net and comprehensive income

For the year ended December 31, 2016, the Company recorded net and comprehensive income attributable to shareholders of the Company of $10,564,233 compared to a net and comprehensive income attributable to shareholders of $3,076,191 for the year ended December 31, 2015. For the three months ended December 31, 2016, the Company recorded net and comprehensive income attributable to shareholders of the Company of $3,469,948 compared to a net and comprehensive income attributable to shareholders of $154,075 for the comparable period in 2015. The increase in earnings compared to 2015 is reflective of anesthesia services' contribution to earnings and the decrease in finance expense incurred in the period, partially offset by tax expense in the period. Net and comprehensive income attributable to shareholders has increased by $600,434 compared to the third quarter of 2016.

Net and comprehensive income attributable to non-controlling interest was $5,512,095 for the year ended December 31, 2016. Net and comprehensive income attributable to non-controlling interest was $2,884,234 for the three months ended December 31, 2016. Net and comprehensive income attributable to non-controlling interest has increased by $728,228 when compared to the third quarter of 2016.

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 '16	Q3 '16	Q2 '16	Q1 '16	Q4 '15	Q3 '15	Q2 '15	Q1 '15
Anesthesia services revenue[1]	23,008	19,447	13,930	11,437	11,330	9,195	8,514	7,457
Product sales revenue	2,814	2,661	2,657	2,400	2,608	2,415	2,367	2,163
Total revenue	**25,822**	**22,108**	**16,587**	**13,837**	**13,938**	**11,610**	**10,881**	**9,620**
Total operating expense	**16,649**	**15,514**	**11,546**	**9,891**	**9,265**	**9,325**	**7,728**	**6,300**
Adjusted operating expenses[2]								
Anesthesia services[2]	9,492	8,794	6,158	5,323	5,061	4,023	3,460	2,984
Product sales[2]	1,083	974	1,004	998	950	888	981	904
Corporate[2]	746	685	853	754	664	798	665	639
Total adjusted operating expenses[2]	**11,321**	**10,453**	**8,015**	**7,075**	**6,675**	**5,709**	**5,106**	**4,527**
Operating income	**9,173**	**6,595**	**5,041**	**3,946**	**4,673**	**2,285**	**3,154**	**3,320**
Adjusted operating EBITDA[3] - non-controlling interest[4]	4,219	2,533	1,518	848	465	142	-	-
Adjusted operating EBITDA[3] - shareholders of the Company	**10,281**	**9,122**	**7,054**	**5,914**	**6,797**	**5,759**	**5,775**	**5,093**
Adjusted operating EBITDA[3] - total	**14,500**	**11,655**	**8,572**	**6,762**	**7,264**	**5,901**	**5,775**	**5,093**
Net finance (income) expense	1,175	1,381	2,156	(289)	5,914	1,013	4,492	1,665
Income tax expense (recovery)[5]	1,643	188	1,219	1,204	(1,541)	(442)	(661)	(269)
Net income (loss)	**6,354**	**5,026**	**1,666**	**3,031**	**299**	**1,714**	**(678)**	**1,924**
Attributable to:								
Shareholders of the Company	3,470	2,870	1,269	2,956	154	1,676	(678)	1,924
Non-controlling interest[(4)]	2,884	2,156	397	75	145	38	-	-
Operating EBITDA per share attributable to shareholders								
Basic	0.142	0.127	0.099	0.083	0.096	0.083	0.083	0.083
Diluted	0.138	0.123	0.095	0.080	0.092	0.080	0.083	0.080
Earnings (loss) per share attributable to shareholders								
Basic	0.048	0.040	0.018	0.041	0.002	0.024	(0.010)	0.031
Diluted	0.047	0.039	0.017	0.040	0.002	0.023	(0.010)	0.030

[2] Adjusted operating expenses: 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] Adjusted 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.

[5] Income tax expense for the three months ended September 30, 2016 includes an immaterial adjustment related to the prior quarters in 2016 associated with the non-controlling interests' share of income tax expense.

SUMMARY OF QUARTERLY RESULTS (Unaudited)

During the year, we continue to analyze payor rate data with regards to our cash collection experience. This data impacts our calculation and reporting of revenues, especially for recently acquired businesses. In the fourth quarter of the year, we made certain adjustments to reflect our collection experience. If these adjustments were made in the quarter the revenue was earned, operating EBITDA adjusted attributable to shareholders and non-controlling interest would, as a percentage of revenue, follow the same pattern in the fourth quarter of 2016 as experienced in the third quarter of 2016.

With the Company's continued expansion of its anesthesia business the effects of these adjustments will be mitigated.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2016, the Company had $9,507,004 in cash and cash equivalents compared to $3,572,344 at the end of 2015. The increase in cash and equivalents is primarily a reflection of cash generated from operations less cash used to finance acquisitions.

Working capital was $9,657,303 compared to working capital of $3,272,075 at December 31, 2015. The Company expects to meet its short-term obligations, including short-term obligations in respect of its notes payable and deferred consideration through cash earned through operating activities.

The Company has financed its operations primarily from revenues generated from product and anesthesia services and through equity and debt financings and a revolving credit facility. As of December 31, 2016, the Company has raised approximately $51 million from the sale and issuance of equity securities. The Company also obtained debt financing of $52 million via senior and subordinated credit facilities with Crown, Bloom Burton and Knight in 2014 and entered into a revolving credit facility with the Bank of Nova Scotia for $33,000,000 in 2015 which was subsequently increased to $55,000,000 in 2016.

The Company's outstanding credit facilities are described as follows:

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

On December 1, 2014, the Company entered into an agreement to borrow funds in the form of a subordinated note payable from Crown Capital Fund III Management Inc. At inception, the original amount of the note payable was CAD$22,500,000 (USD$19,863,000). The note bears interest at 12% per annum with a decrease to 10% upon repayment and performance in full of the Company's obligations under its senior credit agreement (see Scotia Facility). Interest on the note is payable on a quarterly basis beginning March 31, 2015, with the payment of the principal scheduled for June 1, 2018. The Company has the option to prepay the Crown Note beginning December 1, 2017. In compensation for its services, the Company paid Crown a combination of cash CAD$1,350,000 (USD$1,191,780) and shares (2,000,000 common shares) in addition to reimbursement of legal costs in relation to issuance of the note. The Crown note is subordinate to the Scotia Facility. The note is classified as an other financial liability and recorded at amortized cost.

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

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

The Bank of Nova Scotia ("Scotia Facility")

On November 24, 2015, the Company entered into a credit facility with the Bank of Nova Scotia. The facility, which has a maturity date of April 30, 2018, provided financing of up to $33,000,000. On June 15, 2016, the Company amended the Scotia Facility to provide financing of up to $55,000,000. In conjunction with this amendment, the Company paid $390,400 in fees to the Bank of Nova Scotia and legal counsel. As at December 31, 2016, the Company had drawn $29,000,000 on the amended Facility (December 31, 2015 - $17,000,000). The Facility is repayable in full at maturity, with scheduled principal repayments on a quarterly basis being made since March 31, 2016 based upon the outstanding balance of the Facility. The Facility is a revolving credit facility which the Company may terminate at any time without penalty. The credit facility bears interest at a floating rate based on the US prime rate, LIBOR or bankers' acceptance rates plus an applicable margin. At December 31, 2016, the interest rate on the facility was LIBOR plus 2.75%. The Facility is secured by the assets of the Company. The Company is required to maintain the following financial covenants in respect of the Facility for the quarter-ended and year ended December 31, 2016:

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

The Company is in compliance with the above covenants at December 31, 2016.

Cash provided by operating activities for the year ended December 31, 2016 was $32,922,582 compared to $17,957,340 for fiscal 2015. Cash provided by operating activities for the three months ended December 31, 2016 was $10,669,732 compared to $6,272,382 for the last quarter of 2015.

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

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

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

As at December 31, 2016, the Company has no material contractual obligations, other than those obligations relating to its leases of premises and those obligations under its debt agreements, deferred consideration agreements, and earn-out obligations as described above. The minimum lease payments in respect of the Company's leases will be $113,894 in fiscal 2017.

OUTSTANDING SHARE CAPITAL

As at December 31, 2016, there were 72,745,939 common shares issued and outstanding for a total of $52,706,484 in share capital.

As at December 31, 2016, there were 1,603,124 options outstanding at a weighted-average exercise price of $0.47 per share, of which 1,177,499 were exercisable into common shares at a weighted-average exercise price of $0.45 per share. As at December 31, 2016, 2016, there were 3,418,000 share units issued and outstanding.

As at February 22, 2017 there were 72,745,939 common shares issued and outstanding for a total of $52,706,484 in share capital. There are 1,596,874 options outstanding at a weighted-average exercise price of $0.48 per share, of which 1,249,374 are exercisable into common shares at a weighted average price of $0.47 per share. As at February 22, 2017, there are 3,398,000 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, 2016, 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 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 $210,100 (2015 - $210,916) to Directors of the Company. Additionally, the Company made product sales totaling $37,277 (2015 - $36,800) to four companies owned or controlled by two of the Company's Directors. The transaction terms with related parties may not be on the same price as those that would result from transactions among non-related parties.

In 2015 and up until June 16, 2016, one of the directors of the Company was an indirect shareholder of KGAA.

(b) Compensation of key management personnel:

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

	2016	2015
Salaries, directors' fees and other benefits	$ 1,369,329	$ 988,647
Share-based payments	801,311	2,295,237
	$ 2,170,640	$ 3,283,884

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

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

Management has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards. Management, including the Company's Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate ICFR, which has been developed based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO (2013)). The Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the COSO (2013) framework and concluded that the Company's internal control over financial reporting was effective as of December 31, 2016.

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 2016, there were no significant changes in the Company's internal controls over financial reporting that have materially affected or are reasonably likely to affect the Company's internal controls over financial reporting.

As permitted by National Instrument 52-109, the evaluation of the design of disclosure controls and procedures and internal controls over financial reporting does not include controls, policies and procedures covering the Company's acquisitions completed in the second quarter of 2016. Prior to its acquisition by the Company, Austin, Community and Arapahoe were privately held companies. Revenues totaling $18,567,366 and net income before tax of $6,266,973 from these acquisitions were included in our consolidated financial statements for the year ended December 31, 2016.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

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

The Company's intangible assets are comprised of purchased technology, purchased professional service agreements, and patents. The cost of the Company's intangible assets is amortized on a straight-line basis over the estimated useful life ranging from 2.8 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 payors and patients. The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established billing rates. The differences between the estimated program reimbursement rates and the standard billing rates are accounted for as contractual adjustments, which are deducted from gross revenues to arrive at net operating revenues. Retroactive adjustments, if any, are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Accounts receivable resulting from such payment arrangements are recorded net of contractual allowances. The provision for contractual allowances and discounts are recognized on an accrual basis. These amounts are deducted from gross service revenue to determine net service revenue.

(c) Accounts receivable and allowance for doubtful accounts:

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

(d) Stock-based compensation:

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

(e) Income taxes:

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

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

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

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

FUTURE CHANGES IN ACCOUNTING POLICIES

New standards and interpretations not yet applied:

IFRS 9 *- Financial Instruments:*

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

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

The Company 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.

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

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

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

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:

	2016	2015
Cash and cash equivalents	$ 9,507,004	$ 3,572,344
Trade receivables	9,804,920	7,031,030
	$ 19,311,924	$ 10,603,374

Liquidity risk

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

Market risk

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

(*i*) Foreign currency risk:

The majority of the Company's sales and purchases are made in U.S. dollars. However, certain of the Company's revenues and expenses are denominated in Canadian dollars. Foreign currency risk reflects the risk that the Company's earnings will be impacted by fluctuations in exchange rates. The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures and the resulting volatility of the Company's earnings. The Company manages this risk by pricing sales in U.S. dollars or the currency of the expenses being incurred. The Company has not entered into any forward foreign exchange contracts as at December 31, 2016, except as described herein. Due to the immaterial nature of the Company's Canadian dollar revenues and expenses, foreign currency risk in this area is considered low. Similarly, foreign currency risk in respect of foreign currency denominated working capital balances is also low due to its limited value and exposure.

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

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 $92,000 for the year ended December 31, 2016 (2015 - $5,000). 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, 2016.

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

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

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

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

Adjusted operating EBITDA

For the three months ended	2016				2015				2014
(USD in thousands)	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar	Dec
Adjusted operating EBITDA attributable to:									
Shareholders of the Company	10,281	9,122	7,054	5,914	6,797	5,758	5,775	5,093	2,670
Non-controlling interest	4,219	2,533	1,518	848	465	142	-	-	-
Total adjusted operating EBITDA	**14,500**	**11,655**	**8,572**	**6,762**	**7,263**	**5,900**	**5,775**	**5,093**	**2,670**
Amortization expense	(4,715)	(4,711)	(2,925)	(2,475)	(2,188)	(1,745)	(1,459)	(1,402)	(458)
Depreciation and related expense	(30)	(31)	(30)	(15)	(18)	(17)	(17)	(12)	(13)
Stock based compensation	(525)	(297)	(290)	(264)	(261)	(1,001)	(1,145)	(343)	(69)
Acquisition expenses	(58)	(21)	(286)	(62)	(123)	(221)	-	(16)	(845)
Impairment of inventory	-	-	-	-	-	(241)	-	-	-
Impairment of intangible assets	-	-	-	-	-	(390)	-	-	-
Operating income	**9,172**	**6,595**	**5,041**	**3,946**	**4,673**	**2,285**	**3,154**	**3,320**	**1,285**
Net finance income (expense)	(1,175)	(1,381)	(2,156)	289	(5,914)	(1,013)	(4,492)	(1,665)	(1,623)
Income tax (expense) recovery	(1,643)	(188)	(1,219)	(1,205)	1,541	442	661	270	721
Net and comprehensive income (loss)	**6,354**	**5,026**	**1,666**	**3,030**	**300**	**1,714**	**(677)**	**1,925**	**383**

Adjusted operating expenses

For the three months ended	2016				2015				2014
(USD in thousands)	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar	Dec
Anesthesia services - adjusted operating expense	**9,492**	**8,794**	**6,158**	**5,323**	**5,061**	**4,023**	**3,460**	**2,984**	**1,255**
Amortization expense	4,715	4,711	2,925	2,475	2,188	1,745	1,459	1,403	458
Depreciation and related expense	1	3	2	2	4	3	2	-	-
Stock based compensation	120	38	27	17	12	13	10	2	-
Acquisition expenses	58	21	286	62	123	221	-	-	-
Impairment of intangible assets	-	-	-	-	-	390	-	-	-
Anesthesia services expense	**14,386**	**13,567**	**9,398**	**7,879**	**7,389**	**6,395**	**4,931**	**4,389**	**1,713**
Product sales - adjusted operating expense	**1,083**	**974**	**1,004**	**998**	**950**	**888**	**981**	**904**	**978**
Amortization expense	-	-	-	-	-	-	-	-	-
Depreciation and related expense	15	15	15	1	1	1	1	1	1
Stock based compensation	125	90	99	84	81	106	80	136	22
Impairment of inventory	-	-	-	-	-	241	-	-	-
Product sales expense	**1,223**	**1,079**	**1,118**	**1,083**	**1,031**	**1,236**	**1,062**	**1,041**	**1,001**
Corporate - adjusted operating expenses	**746**	**684**	**853**	**754**	**664**	**798**	**665**	**638**	**843**
Amortization expense	-	-	-	-	-	-	-	-	-
Depreciation and related expense	14	14	13	13	14	14	14	11	12
Stock based compensation	280	169	164	162	167	882	1,056	205	47
Acquisition expenses	-	-	-	-	-	-	-	16	845
Corporate expense	**1,040**	**867**	**1,030**	**929**	**845**	**1,694**	**1,735**	**870**	**1,747**
Total adjusted operating expense	**11,321**	**10,453**	**8,015**	**7,075**	**6,675**	**5,709**	**5,106**	**4,527**	**3,076**
Total operating expense	**16,649**	**15,514**	**11,546**	**9,891**	**9,265**	**9,325**	**7,728**	**6,300**	**4,461**

Consolidated Financial Statements
(Expressed in United States dollars)

CRH MEDICAL CORPORATION

Years ended December 31, 2016 and 2015

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"

February 22, 2017

Chief Financial Officer
(signed) "Richard Bear"

February 22, 2017

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

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, 2016 and December 31, 2015, 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

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, 2016 and December 31, 2015, 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 22, 2017
Vancouver, Canada

CRH MEDICAL CORPORATION

Consolidated Balance Sheets
(Expressed in United States dollars)

As at December 31, 2016 and 2015

	Notes	2016	2015
Assets			
Current assets:			
Cash and cash equivalents		$ 9,507,004	$ 3,572,344
Trade and other receivables	8	9,836,739	7,091,549
Current tax assets		1,551,140	-
Prepaid expenses and deposits		550,811	484,795
Inventories		300,760	254,924
		21,746,454	11,403,612
Non-current assets:			
Property and equipment	10	324,198	284,706
Intangible assets	11	133,667,311	87,307,267
Derivative asset	12	1,261,298	-
Deferred tax assets	16	6,539,621	5,499,693
		141,792,428	93,091,666
Total assets		$ 163,538,882	$ 104,495,278
Liabilities			
Current liabilities:			
Trade and other payables	9	$ 3,229,685	$ 3,034,363
Employee benefits		226,874	142,576
Current tax liabilities		2,067,671	869,556
Notes payable and bank indebtedness	13	5,791,787	3,818,048
Deferred consideration	4	773,134	-
Loan		-	266,994
		12,089,151	8,131,537
Non-current liabilities:			
Deferred consideration	4	3,133,694	-
Notes payable and bank indebtedness	13	38,138,774	26,920,418
Earn-out obligation	19	13,149,130	12,468,958
Deferred tax liabilities	16	101,846	-
		54,523,444	39,389,376
Equity			
Share capital	15	52,706,484	51,066,044
Contributed surplus		7,142,964	6,556,951
Accumulated other comprehensive income loss		(66,772)	(66,772)
Retained earnings (deficit)		733,155	(9,831,078)
Total equity attributable to shareholders of the Company		60,515,831	47,725,145
Non-controlling interest		36,410,456	9,249,220
Total equity		96,926,287	56,974,365
Total liabilities and equity		$ 163,538,882	$ 104,495,278

Commitments and contingencies (note 20)
Related party transactions (note 21)
Subsequent event (note 23)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

(signed) "Edward Wright" Director
Edward Wright

(signed) "Anthony Holler" Director
Anthony Holler

CRH MEDICAL CORPORATION

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

Years ended December 31, 2016 and 2015

	Notes		2016		2015
Revenue:					
Anesthesia services	22	$	67,821,879	$	36,496,035
Product sales	22		10,532,753		9,552,445
			78,354,632		46,048,480
Expenses:					
Anesthesia services expense	5		45,229,986		23,103,493
Product sales expense	6		4,503,110		4,369,144
Corporate expense	7		3,866,696		5,144,657
			53,599,792		32,617,294
Operating income			24,754,840		13,431,186
Finance income	18		(1,007,673)		(2,737,964)
Finance expense	18		5,431,035		15,822,292
			4,423,362		13,084,328
Income before tax			20,331,478		346,858
Income tax expense (recovery)	16		4,255,150		(2,912,970)
Net and comprehensive income		$	16,076,328	$	3,259,828
Attributable to:					
Shareholders of the Company		$	10,564,233	$	3,076,191
Non-controlling interest			5,512,095		183,637
		$	16,076,328	$	3,259,828
Earnings per share attributable to shareholders					
Basic	15(e)	$	0.147	$	0.045
Diluted	15(e)	$	0.142	$	0.043
Weighted average shares outstanding:					
Basic			71,826,884		67,870,529
Diluted			74,203,830		70,772,341

See accompanying notes to consolidated financial statements.

CRH MEDICAL CORPORATION

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

For the years ended December 31, 2016 and 2015

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings (deficit)	Non-controlling interest	Total equity
Balance as at January 1, 2015	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 15)	8,050,000	20,254,709	-	-	-	-	20,254,709
Deferred tax recovery on share issuance costs (note 15)	-	420,511	-	-	-	-	420,511
Broker warrants issued in share offering (note 15)	-	(249,149)	249,149	-	-	-	-
Exercise of broker warrants (note 15)	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
Total net and comprehensive income for the year	-	-	-	-	10,564,233	5,512,095	16,076,328
Transactions with owners, recorded directly in equity:							
Stock based compensation expense	-	-	1,376,674	-	-	-	1,376,674
Common shares purchased on exercise of options	1,358,687	1,044,077	(457,389)	-	-	-	586,688
Common shares issued on vesting of share units	80,000	229,378	(229,378)	-	-	-	-
Exercise of broker warrants (note 15)	100,705	366,985	(103,894)	-	-	-	263,091
Distributions to members	-	-	-	-	-	(5,685,181)	(5,685,181)
Acquisition of non-controlling interest (note 4)	-	-	-	-	-	27,334,322	27,334,322
Balance as at December 31, 2016	72,745,939	$ 52,706,484	$ 7,142,964	$ (66,772)	$ 733,155	$ 36,410,456	$ 96,926,287

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, 2016 and 2015

	Notes	2016	2015
Cash provided by (used in)			
Operating activities:			
Net income		$ 16,076,328	$ 3,259,828
Adjustments for:			
Depreciation of property, equipment and intangibles		14,932,118	6,859,393
Write-off of intangible asset		-	389,693
Write-off of inventory		-	240,946
Stock-based compensation	15	1,376,674	2,749,452
Unrealized foreign exchange		(1,104,700)	(2,803,931)
Finance expense	18	5,431,035	15,822,292
Income tax expense (recovery)	16	4,255,150	(2,912,970)
Operating activity before changes in operating assets and liabilities		40,966,605	23,604,703
Taxes paid		(5,466,601)	(460,084)
Change in trade and other receivables		(2,745,190)	(1,372,898)
Change in prepaid expenses		(66,016)	(302,872)
Change in inventories		(45,836)	118,467
Change in trade and other payables		195,322	(3,404,140)
Change in employee benefits		84,298	36,646
Change in short term advances		-	(262,482)
Cash provided by operating activities		32,922,582	17,957,340
Financing activities			
Net proceeds on the issuance of shares	15	-	20,254,709
Proceeds from loans	4	-	266,994
Repayment of loans	4	(266,994)	-
Repayment of notes payable and bank indebtedness interest	13	(3,135,765)	(5,903,690)
Repayment of notes payable and bank indebtedness	13	(14,000,000)	(32,000,000)
Payment of financing fees	13	(579,460)	-
Proceeds on bank indebtedness	13	26,000,000	16,514,092
Distributions to non-controlling interest		(5,685,180)	-
Proceeds from the exercise of broker warrants		263,091	363,159
Proceeds from the issuance of shares relating to stock-based compensation		586,688	657,273
Cash provided by financing activities		3,182,380	152,537
Investing activities			
Acquisition of property and equipment		(113,196)	(184,838)
Acquisition of anesthesia services providers	4	(30,062,239)	(18,471,864)
Cash used in investing activities		(30,175,435)	(18,656,702)
Effects of foreign exchange on cash and cash equivalents		5,133	(14,494)
Increase (decrease) in cash and cash equivalents		5,934,660	(561,319)
Cash and cash equivalents, beginning of year		3,572,344	4,133,663
Cash and cash equivalents, end of year		$ 9,507,004	$ 3,572,344

See accompanying notes to consolidated financial statements.

1. Reporting entity:

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

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

2. Basis of preparation:

(a) Statement of compliance:

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 22, 2017.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

2. Basis of preparation (continued):

(d) Use of estimates, assumptions and judgments:

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

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

(*i*) Use of estimates and assumptions:

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

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

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

(*ii*) Judgments:

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

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

3. Significant accounting policies:

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

(a) Basis of consolidation:

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

(b) Cash equivalents:

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

(c) Foreign currency:

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

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

(d) Revenue recognition:

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

3. Significant accounting policies (continued):

(e) Employee benefits:

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

(f) Inventories:

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

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

(g) Property and equipment:

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

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

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

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

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

3. Significant accounting policies (continued):

(h) Intangible assets:

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

Asset	Basis	Rate
Intellectual property rights the CRH O'Regan System	Straight-line	15 years
Intellectual property new technology	Straight-line	20 years
Exclusive professional services agreements	Straight-line	2.8 to 12 years

(i) Financial instruments:

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

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

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

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

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

3. Significant accounting policies (continued):

(i) Financial instruments (continued):

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

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

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

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

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

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

3. Significant accounting policies (continued):

(j) Impairment:

Financial assets:

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

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

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

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

Non-financial assets:

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

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

3. Significant accounting policies (continued):

(k) Income taxes:

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

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

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

(l) Share-based compensation:

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

(m) Share capital:

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

3. Significant accounting policies (continued):

(n) Earnings per share:

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

(o) Provisions:

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

(p) Segment reporting:

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

(q) Finance costs:

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

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

3. Significant accounting policies (continued):

(r) Business combinations:

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

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

(s) Adoption of new accounting standards:

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

(t) New standards and interpretations not yet applied:

(i) IFRS 9 - *Financial Instruments:*

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

3. Significant accounting policies (continued):

(u) New standards and interpretations not yet applied:

(i) IFRS 9 - *Financial Instruments:*

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

The Company 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.

(iv) IFRS 15 - *Revenue Recognition:*

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

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

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

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

The Company 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.

4. Business combinations:

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

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

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

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

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

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

4. Business combinations (continued):

AGAA

In May 2016, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire 51% of the ownership interest in Austin Gastroenterology Anesthesia Associates, PLLC (“AGAA”), an anesthesia services provider in Texas. The total purchase price under the asset contribution and exchange agreement was $17,200,000 and was paid via a combination of cash ($13,000,000) and deferred cash consideration ($4,200,000). The deferred consideration is payable annually over a period of four years. At the date of acquisition, the deferred consideration was discounted to its fair value ($3,821,895) using a discount rate consistent with the Company’s underlying credit risk at the time of the transaction. This resulted in total consideration of $16,821,895 for this transaction. As part of the transaction, the Company also entered into an operating agreement between it and the non-controlling interest shareholders of AGAA which governs the operation of AGAA. As a result of the 51% ownership interest acquired and the operating agreement, the Company has acquired control of AGAA and, as a result, 100% of the financial results of AGAA have been included in the Company’s consolidated financial statements from the date of acquisition, being May 31, 2016. The non-controlling interest of $16,162,214 was determined based on 49% of the fair value of AGAA’s net identifiable assets as estimated by the Company. The deferred consideration has been presented as $773,134 as a current liability and $3,133,694 as a long-term liability in the balance sheet.

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

Community

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

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

4. Business combinations (continued):

Arapahoe

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

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

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

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

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

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

4. Business combinations (continued):

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

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 estimated fair values of the assets and liabilities acquired at the acquisition date.

	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):

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 during the year ended December 31, 2015

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.

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.

4. Business combinations (continued):

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. These loans have been repaid as at December 31, 2016.

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.

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 Company would have been approximately $56.0 million and net income before tax would have been approximately $2.7 million.

4. Business combinations (continued):

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

5. Anesthesia services expense:

For the years ended December 31:

	2016	2015
Employee related	$ 19,092,648	$ 9,144,390
Depreciation and amortization	14,834,481	6,802,971
Bad debt expense	3,932,374	1,981,516
Office related	5,344,226	3,445,313
Write-off of professional services contract	-	389,693
Acquisition expense	426,694	344,884
Medical supplies	845,329	710,963
Stock based compensation	201,538	37,539
Professional fees	443,234	206,873
Insurance	108,637	39,051
Corporate	825	-
Foreign exchange	-	300
	$ 45,229,986	$ 23,103,493

6. Product sales expense:

For the years ended December 31:

	2016	2015
Employee related	$ 1,427,602	$ 1,317,665
Product cost and support	2,031,707	1,956,487
Write-off of inventory	-	240,946
Professional fees	279,013	170,624
Office related	253,672	226,898
Stock based compensation	398,388	401,969
Insurance	54,326	54,430
Depreciation and amortization	44,863	2,596
Foreign exchange	13,539	(2,471)
	$ 4,503,110	$ 4,369,144

7. Corporate expense:

For the years ended December 31:

	2016	2015
Employee related	$ 1,376,208	$ 1,099,438
Professional expenses	533,467	666,048
Corporate	437,563	416,015
Stock based compensation	776,748	2,309,944
Travel and entertainment	248,719	241,819
Office related	180,737	157,462
Insurance	244,610	162,502
Acquisition expenses	-	16,083
Depreciation and write-offs	52,772	53,826
Foreign exchange	15,872	21,520
	$ 3,866,696	$ 5,144,657

8. Trade and other receivables:

	2016	2015
Trade receivables (note 19(a))	$ 9,804,920	$ 7,031,030
Other receivables	31,819	60,519
	$ 9,836,739	$ 7,091,549

9. Trade and other payables:

	2016	2015
Trade payables	$ 372,612	$ 545,606
Payments due to former owners of business combinations	58,667	77,017
Other payables	2,798,406	2,411,740
	$ 3,229,685	$ 3,034,363

10. Property and equipment:

	Computer equipment and software	Furniture and equipment	Leasehold improvements	Injection mold	Total
Cost					
Balance as at January 1, 2015	$ 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
Additions	16,016	1,805	-	95,375	113,196
Dispositions	(3,629)	-	-	-	(3,629)
Balance as at December 31, 2016	$ 55,699	$ 118,000	$ 4,727	$ 406,648	$ 585,074

	Computer equipment and software	Furniture and equipment	Leasehold improvements	Injection mold	Total
Accumulated depreciation					
Balance as at January 1, 2015	$ 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
Depreciation expense	7,950	19,893	426	42,369	70,638
Dispositions	(563)	-	-	-	(563)
Balance as at December 31, 2016	$ 29,549	$ 59,023	$ 3,020	$ 169,284	$ 260,876

	Computer equipment and software	Furniture and equipment	Leasehold improvements	Injection mold	Total
Net book value					
December 31, 2016	$ 26,150	$ 58,977	$ 1,707	$ 237,364	$ 324,198
December 31, 2015	$ 21,150	$ 77,065	$ 2,133	$ 184,358	$ 284,706

11. Intangible assets:

	Professional Services Agreements	Patents	Total
Cost			
Balance as at January 1, 2015	$ 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
Additions through business combinations (note 4)	61,218,456	-	61,218,456
Balance as at December 31, 2016	$ 155,635,148	$ 532,598	$ 156,167,746

	Professional Services Agreements	Patents	Total
Accumulated depreciation			
Balance as at January 1, 2015	$ 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
Amortization expense	14,823,948	34,464	14,858,412
Balance as at December 31, 2016	$ 21,999,771	$ 500,664	$ 22,500,435

	Professional Services Agreements	Patents	Total
Net book value			
December 31, 2016	$ 133,635,377	31,934	133,667,311
December 31, 2015	$ 87,240,869	$ 66,398	$ 87,307,267

12. Derivative asset:

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

The Company accounts for the cross currency swap as a derivative financial instrument at fair value through profit or loss and has recorded the fair value of the instrument on the balance sheet at December 31, 2016 with changes in the fair value of the instrument recorded through earnings in the year of $1,261,298. The cross currency swap agreement matures on January 31, 2018.

13. Notes payable:

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

December 31, 2015	Crown Note	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

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

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

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

13. Notes payable (continued):

The Bank of Nova Scotia ("Scotia Facility")

On November 24, 2015, the Company entered into a credit facility with the Bank of Nova Scotia. The facility, which has a maturity date of April 30, 2018, provided financing of up to $33,000,000. On June 15, 2016, the Company amended the Scotia Facility to provide financing of up to $55,000,000. In conjunction with this amendment, the Company paid $390,400 in fees to the Bank of Nova Scotia and legal counsel. As at December 31, 2016, the Company had drawn $29,000,000 on the amended Facility (December 31, 2015 - $17,000,000). The Facility is repayable in full at maturity, with scheduled principal repayments on a quarterly basis beginning March 31, 2016 based upon the outstanding balance of the Facility. The Facility is a revolving credit facility which the Company may terminate at any time without penalty. The credit facility bears interest at a floating rate based on the US prime rate, LIBOR or bankers' acceptance rates plus an applicable margin. At December 31, 2016, the interest rate on the facility was LIBOR plus 2.75%. The Facility is secured by the assets of the Company. The Company is required to maintain the following financial covenants in respect of the Facility for the quarter-ended and year ended December 31, 2016:

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

The Company is in compliance with the above covenants at December 31, 2016.

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

	Minimum Principal
At December 31, 2016	
Not later than one year	$ 6,000,000
Between one and five years	38,538,500
	$ 44,538,500

14. 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
CRH GAA, PC	Texas, United States
Austin Gastroenterology Anesthesia Associates PLLC	Texas, United States
Community Anesthesia PLLC	Massachusetts, United States
CRH Anesthesia of Arapahoe LLC	Delaware, United States
Arapahoe Gastroenterology Anesthesia Associates LLC	Delaware, United States

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

The following tables summarize the financial information of KGAA, including fair value adjustments at acquisition but excluding tax and intercompany eliminations, as at December 31, 2016 and 2015.

	2016	2015
Cash and cash equivalents	$ 1,333,289	$ 439,082
Trade and other receivables	1,048,233	1,191,100
Prepaids	-	11,006
Intangible assets	10,822,783	12,732,686
	13,204,305	14,373,874
Accounts payable and accrued liabilities	237,362	273,992
Loans	-	166,994
	237,362	440,986
Member contributions	7,669,320	13,369,320
Retained earnings	5,297,623	563,568
	12,966,943	13,932,888
Total liabilities and equity	$ 13,204,305	$ 14,373,874

14. Subsidiary undertakings (continued):

(a) KGAA (continued):

		2016		2015
Anesthesia revenue	$	10,307,361	$	2,135,066
Anesthesia services expense		5,573,305		1,571,498
Net income before tax	$	4,734,056	$	563,568

As at December 31, 2016, non-controlling interest (before the effects of tax) relating to this entity was $6,375,722 (December 31, 2015 - $6,827,116). Net income before tax attributable to non-controlling interest for the year ended December 31, 2016 was $2,319,687 (2015 - $276,148).

(b) The Company holds a 51% controlling interest in Austin Gastroenterology Anesthesia Associates PLLC ("AGAA"). As a result of the operating agreement, the Company controls AGAA and 100% of the financial results of this subsidiary are included in the Company's consolidated financial results.

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

		2016
Cash and cash equivalents	$	2,866,916
Trade and other receivables		1,403,277
Prepaids		10,635
Intangible assets		31,060,037
		35,340,865
Accounts payable and accrued liabilities		453,759
Loans		-
		453,759
Member contributions		29,244,110
Retained earnings		5,642,996
		34,887,106
Total liabilities and equity	$	35,340,865

		2016
Anesthesia revenue	$	11,593,180
Anesthesia services expense		5,949,366
Net income before tax	$	5,643,814

As at December 31, 2016, non-controlling interest relating to this entity was $17,095,082. Net income before tax attributable to non-controlling interest for the year ended December 31, 2016 was $2,765,469.

14. Subsidiary undertakings (continued):

(c) The Company also holds the following interests:

Entity	Interest
Community Anesthesia PLLC	65%
Macon Gastroenterology Anesthesia Associates LLC	65%
Arapahoe Gastroenterology Anesthesia Associates LLC	51%

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

The following tables summarize the aggregate financial information for the above entities, including fair value adjustments at acquisition but excluding tax and intercompany eliminations, as at December 31, 2016 and 2015.

		2016		2015
Cash and cash equivalents	$	1,742,274	$	263,004
Trade and other receivables		2,359,873		193,159
Prepaids		13,821		-
Intangible assets		30,877,177		7,071,556
		34,993,145		7,527,719
Accounts payable and accrued liabilities		659,482		83,314
Loans		-		285,714
		659,482		369,028
Member contributions		33,308,961		7,184,615
Retained earnings (deficit)		1,024,702		(25,924)
		34,333,663		7,158,691
Total liabilities and equity	$	34,993,145	$	7,527,719

		2016		2015
Anesthesia revenue	$	11,044,835	$	205,488
Anesthesia services expense		9,994,210		231,412
Net income (loss) before tax	$	1,050,625	$	(25,924)

As at December 31, 2016, non-controlling interest relating to these entities was $13,099,934 (December 31, 2015 - $2,505,542). Net income before tax attributable to non-controlling interest for the above entities for year ended December 31, 2016 was $503,784 (2015 - $(9,073)).

15. Share capital:

(a) Authorized:

100,000,000 common shares without par value.

(b) Issued and outstanding – common shares:

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

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

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 expired 18 months from the close date of the bought deal offering and had 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.

15. Share capital (continued):

(c) Stock option plan:

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

A summary of the status of the plan as of December 31, 2016 and 2015 is as follows (options are granted in CAD and USD amounts are calculated using prevailing exchange rates):

	Number of options	Weighted average exercise price	
		CAD	USD
Outstanding, January 1, 2015	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
Issued	-	-	-
Exercised	(1,358,687)	0.57	0.42
Forfeited	(12,500)	0.52	0.39
Expired	-	-	-
Outstanding, December 31, 2016	1,603,124	$ 0.63	$ 0.47

The following table summarizes information about the stock options outstanding at December 31, 2016:

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

As 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

15. Share capital (continued):

(c) Stock option plan (continued):

For the year ended December 31, 2016, the Company recognized $97,486 (2015 - $291,834), in compensation expense as a result of stock options awarded and vested. Compensation expense is recorded in the consolidated statement of operations and comprehensive income and is allocated to product sales expenses (note 6), corporate expenses (note 7) and anesthesia expenses (note 5) on the same basis as the allocations of cash compensation.

During the years ended December 31, 2016 and 2015, no additional stock options were granted.

(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.

15. Share capital (continued):

(d) Share unit plan (continued):

A summary of the status of the plan as of December 31, 2016 and 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
Issued	704,000	1,350,000
Exercised	(80,000)	-
Forfeited	(65,000)	-
Expired	-	-
Outstanding, December 31, 2016	1,068,000	2,350,000

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

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

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

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

15. Share capital (continued):

(d) Share unit plan (continued):

During the year ended December 31, 2015, the Company issued 509,000 share units ("Time based share units"). 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.

In 2015, the Company granted 2,000,000 share units ("Performance based share units") which 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 recognized the expense relating to these units, in full, and issued 1,000,000 common shares.

During the year ended December 31, 2016, the Company recognized $1,279,188 (2015 - $2,457,618), in compensation expense in relation to the granting and vesting of share units.

15. Share capital (continued):

(e) Earnings per share:

The calculation of basic earnings per share for the years ended December 31, 2016 and 2015 is as follows:

	2016			2015		
	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	$ 10,564,233	71,826,884	$ 0.147	$ 3,076,191	67,870,529	$ 0.045
Share options		2,113,563			2,701,476	
Share units		263,383			-	
Broker warrants		-			200,336	
Diluted	$ 10,564,233	74,203,830	$ 0.142	$ 3,076,191	70,772,341	$ 0.043

For the year ended December 31, 2016, 315,251 options (2015 – 661,899) and 1,179,073 share units (2015 - 1,755,961) were excluded from the diluted weighted average number of common shares calculation.

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

16. Income taxes:

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

		2016		2015
Current tax expense	$	5,310,454	$	1,136,028
Deferred tax expense (recovery):				
Recognition of previously unrecognized temporary differences		-		(2,600,786)
Origination and reversal of temporary differences		(830,584)		(1,401,096)
Change in enacted tax rates and other		(224,720)		(47,116)
Total tax expense (recovery)	$	4,255,150	$	(2,912,970)

The reconciliation of income tax computed at statutory tax rates to income tax expense, using a 26% (2015 – 26%) statutory rate, is:

		2016		2015
Tax expense at statutory income tax rates	$	5,286,493	$	90,183
Recognition of previously unrecognized temporary differences		-		(2,600,786)
Permanent differences		159,800		123,386
Income attributable to non-controlling interest		(1,306,217)		-
Foreign income taxed at different rates		243,256		(469,839)
Other		(128,182)		(55,914)
Total tax expense (recovery)	$	4,255,150	$	(2,912,970)

(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.

		2016		2015
Deferred tax assets:				
Non-capital losses	$	-	$	724,802
Property and equipment		141		-
Finance related costs		527,462		350,543
Reserves		74,105		941,352
Share transaction costs		273,332		357,434
Stock-based compensation		426,051		128,837
Deferred consideration		1,523,663		-
Earn-out obligation		5,128,162		4,862,894
Deferred tax liabilities:				
Intangible assets		(1,006,371)		(1,466,546)
Property and equipment		-		(1,880)
Unrealized foreign exchange		(508,770)		(397,743)
Net deferred tax asset	$	6,437,775	$	5,499,693

16. Income taxes (continued):

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

Deferred tax assets by jurisdiction		2016		2015
Canada:				
Deferred tax asset	$	405,108	$	707,977
Deferred tax liability		(506,954)		(408,757)
Net deferred tax asset (liability)	$	(101,846)	$	299,220
United States:				
Deferred tax asset	$	7,559,797	$	6,739,626
Deferred tax liability		(1,020,176)		(1,539,153)
Net deferred tax asset (liability)	$	6,539,621	$	5,200,473

(c) Unrecognized deferred tax assets and liabilities:

As at December 31, 2016 and 2015, the Company had tax losses of $nil from its Canadian operations. As at December 31, 2016, the Company had tax losses of $nil (2015 - $2.1 million) from its US operations, available to reduce future years' income taxes.

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

17. Capital disclosures:

The Company's objective in managing capital is to safeguard its ability to continue as a going concern and to sustain future development of the business. In the management of capital, the Company includes shareholders' equity, excluding accumulated other comprehensive loss. The Company's objective is met by retaining adequate equity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. In order to maintain or adjust its capital structure, the Company may issue new shares. The Board of Directors does not establish quantitative return on capital criteria for management. The Company is not subject to any externally imposed capital requirements, but is subject to debt covenants in respect of its notes payable and bank indebtedness (note 13). The Company's overall strategy with respect to capital management remains unchanged from the year ended December 31, 2015.

		2016		2015
Shareholders' equity attributable to shareholders, excluding other comprehensive income	$	60,582,603	$	47,791,917

18. Net finance expense

Recognized in earnings in the years ended December 31:

	2016	2015
Finance income:		
Foreign exchange gain	$ (1,007,673)	$ (2,737,964)
Total finance income	$ (1,007,673)	$ (2,737,964)
Finance expense:		
Interest and accretion expense on borrowings	$ 4,024,240	$ 6,251,617
Accretion expense on earn-out obligation and deferred consideration	560,150	1,272,494
Amortization of deferred financing fees	614,472	749,378
Net change in fair value of financial liabilities at fair value through earnings	204,958	5,731,294
Extinguishment of notes payable	-	1,817,509
Other	27,215	-
Total finance expense	$ 5,431,035	$ 15,822,292
Net finance expense	$ 4,423,362	$ 13,084,328

19. Financial instruments:

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

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

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

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

The Company's earn-out obligation is measured at fair value on a recurring basis using significant unobservable inputs (Level 3). The Earn-Out Obligation relates to the GAA acquisition in 2014. The total purchase price under the acquisition included an additional $14,655,000 payable within 4.5 years after closing based on the achievement of certain financial performance targets of GAA. As at December 31, 2016, the Company had estimated that potential payments in respect of the earn-out obligation will range from $11,981,000 to $14,655,000. The Company has used a probability weighted valuation technique in calculating the fair value of the earn-out obligation. This valuation technique included inputs relating to estimated cash outflows under the arrangement and the use of a discount rate appropriate to the Company. The Company evaluates the inputs into the probability weighted valuation technique at each reporting period. During the year ended December 31, 2016, the Company revised its assumptions underlying the discount rate used in the calculation of the fair value of the earn-out obligation to account for changes in the underlying credit risk of the Company. The Company also adjusted certain of the probabilities underlying the model. The downward adjustment of the discount rate from 4.42% at December 31, 2015 to 3.80% at December 31, 2016, in conjunction with adjustments to certain of the probabilities in the model, resulted in an increase of $204,958 to the fair value of the earn-out obligation. The impact of this adjustment was recorded through finance expense in the year.

19. Financial instruments (continued):

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 $238,449. During the year ended December 31, 2016, the Company recorded accretion expense of $475,214 in relation to this liability and recorded $1,272,493 in 2015 in relation to this liability and its Knight note obligation (extinguished in 2015), reflecting the change in fair value of the liabilities that is attributable to credit risk.

Reconciliation of level 3 fair values:

	Earn-out Obligation
Balance as at January 1, 2016	$12,468,958
Recorded in finance expense:	
Accretion expense	475,214
Fair value adjustment	204,958
Balance as at December 31, 2016	$13,149,130

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

(a) Credit risk:

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

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

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

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

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

19. Financial instruments (continued):

(a) Credit risk (continued):

	2016	2015
Total trade receivables	$ 13,934,290	$ 9,375,714
Less: allowance for doubtful accounts	(4,129,370)	(2,344,684)
Total trade receivables, net	$ 9,804,920	$ 7,031,030
Of which:		
Current	$ 7,781,818	$ 4,708,391
31 to 60 days	1,674,626	1,084,600
61 to 90 days	1,147,918	766,143
91 days or greater	3,329,928	2,816,580
Total trade receivables	$ 13,934,290	$ 9,375,714

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

	2016	2015
Cash and cash equivalents	$ 9,507,004	$ 3,572,344
Trade receivables	9,804,920	7,031,030
	$ 19,311,924	$ 10,603,374
Continuity of allowance for bad debts:		
Beginning balance	$ 2,344,684	$ 363,138
Write-offs	(2,180,257)	(14,429)
Provision	3,964,943	1,995,975
Total allowance for bad debts	$ 4,129,370	$ 2,344,684

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

19. Financial instruments (continued):

(b) Liquidity risk (continued):

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	39,145,648	6,563,699	32,581,949	-	-
Earn-out obligation	14,120,227	-	14,120,227		
Loans	266,994	266,994	-	-	-
	$ 56,709,808	$ 10,007,632	$ 46,702,176	$ -	$ -

(c) Market risk:

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

(*i*) Foreign currency risk:

The majority of the Company's sales and purchases are made in U.S. dollars. However, certain of the Company's revenues and expenses are denominated in Canadian dollars. Foreign currency risk reflects the risk that the Company's earnings will be impacted by fluctuations in exchange rates. The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures and the resulting volatility of the Company's earnings. The Company manages this risk by pricing sales in U.S. dollars or the currency of the expenses being incurred. The Company has not entered into any forward foreign exchange contracts as at December 31, 2016, except as described in note 12. Due to the immaterial nature of the Company's Canadian dollar revenues and expenses, foreign currency risk in this area is considered low. Similarly, foreign currency risk in respect of foreign currency denominated working capital balances is also low due to its limited value and exposure.

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

19. Financial instruments (continued):

(c) Market risk (continued):

(*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 13). 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 $92,000 (2015 - $5,000) for the year ended December 31, 2016. There would be an equal and opposite impact on the net income with a 10% point decrease.

20. Commitments and contingencies:

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

Less than one year	$	113,894
One to three years		265,753
Four to five years		-
Thereafter		-
Total	$	379,647

Rent expense for the year ended December 31, 2016 was $132,596 (2015 - $108,783).

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

21. Related party transactions:

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

(a) Related party transactions:

The Company paid or accrued fees of $210,100 (2015 - $210,916) to Directors of the Company. Additionally, the Company made product sales totaling $37,277 (2015 - $36,800) to four companies owned or controlled by two of the Company's Directors. The transaction terms with related parties may not be on the same price as those that would result from transactions among non-related parties.

In 2015 and up until June 16, 2016, one of the directors of the Company was an indirect shareholder of KGAA.

(b) Compensation of key management personnel:

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

	2016	2015
Salaries, directors' fees and other benefits	$ 1,369,329	$ 988,647
Share-based payments	801,311	2,295,237
	$ 2,170,640	$ 3,283,884

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

(ii) There were no post-employment, termination or other long-term benefits paid during the years ended December 31, 2016 and 2015.

22. Segmented information:

The Company operates in two industry segments: the sale of medical products and the provision of anesthesia services. The revenues relating to geographic segments based on customer location, in United States dollars, for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Revenue:		
Canada and other	$ 238,049	$ 177,375
United States	78,116,583	45,871,105
Total	$ 78,354,632	$ 46,048,480

22. Segmented information (continued):

The Company's property and equipment, intangibles and other assets are located in the following geographic regions as at December 31, 2016 and 2015:

	2016	2015
Property and equipment:		
Canada	$ 316,145	$ 269,350
United States	8,053	15,356
Total	$ 324,198	$ 284,706
Intangible assets:		
Canada	$ 31,934	$ 66,398
United States	133,635,377	87,240,869
Total	$ 133,667,311	$ 87,307,267
Other assets:		
Canada	$ 1,261,298	$ -
United States	-	-
Total	$ 1,261,298	$ -

The financial measures reviewed by the Company's Chief Operating Decision Maker are presented below for the years ended December 31, 2016 and 2015. The Company does not allocate expenses related to corporate activities. These expenses are presented within "Other" to allow for reconciliation to reported measures.

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

	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

23. Subsequent event:

On February 1, 2017, a subsidiary of the Company entered into a membership interest purchase agreement to acquire a 51% interest in DDAB LLC ("DDAB"), an anesthesia services provider in Decatur, Georgia. The estimated purchase consideration, paid via cash, for the acquisition of the Company's 51% interest was $4,089,791. The preliminary estimate of the exclusive professional service agreement acquired as part of this acquisition is $8,019,198. The Company will consolidate this entity in its consolidated financial statements as a result of the interest acquired in combination with the Company's operating agreement with DDAB.