CRH Medical Corporation

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Quarter Ended March 31, 2016
Financial Report

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

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2016

The following discussion and analysis should be read in conjunction with CRH Medical Corporation's (the "Company" or "CRH") unaudited condensed consolidated interim financial statements for the three months ended March 31, 2016 and 2015 and the annual consolidated financial statements and the corresponding notes thereto for the year ended December 31, 2015. The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Unless otherwise specified, all financial data is presented in United States dollars. This management discussion and analysis is as of April 27, 2016.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking information reflects current expectations of management regarding future events and operating performance as of the date of this document. Such information involves significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in forward-looking information, including, without limitation: our need for additional financing and our estimates regarding our capital requirements, future revenues and profitability; unfavourable economic conditions could have an adverse effect on our business; risks related to the Company's Credit Facilities; risks related to increased leverage resulting from incurring more 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; 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”) 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; ASCs or other customers may terminate or not renew their agreements; 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, 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; health and safety risks are intrinsic 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 GIs and other licensed providers to purchase and use the CRH O’Regan System or to provide our services; risks associated with the trading of our common shares on a public marketplace; risks related to adverse movements in foreign currency exchange rates; risks related to maintaining our foreign private issuer status; risks related to writing-off intangible assets; 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 appropriately recording or documenting 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.

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 five additional acquisitions of anesthesia companies completed during the first, third and fourth quarters of 2015. Anesthesia assisted endoscopies make these procedures more comfortable for patients and allow gastroenterologists to perform more procedures. CRH plans to leverage the capabilities it acquired through GAA to consolidate the highly fragmented gastroenterology anesthesia provider business. The Company’s goal is to establish CRH as the premier provider of innovative products and essential services to gastroenterologists throughout the

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

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. 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

The contribution from anesthesia acquisitions completed in the prior year continues to have a positive impact on the Company. This is a reflection of anesthesia acquisitions completed in the first, third and fourth quarters of 2015 and is seen in both case volume increases and in revenues. Total anesthesia revenue for the first quarter of 2016 was $11,436,741, an increase of $3,979,610 from the first quarter of 2015. The contribution from anesthesia acquisitions completed in the prior year has had a positive impact, increasing total operating EBITDA attributable to shareholders to $6,762,211 for the quarter.

Product revenue remains strong, increasing by 11% in contrast with the first quarter of 2015. This is a reflection of the continuing successful execution of the Company's direct to physician program.

Though the continuing fluctuations in the value of the Canadian dollar does not have a significant impact on the operations of the Company, it has an impact on the Company's Canadian dollar denominated debt. On January 21, 2016, the Company entered into a cross currency swap to mitigate future foreign exchange exposure and has locked in the Canadian dollar to U.S. dollar foreign exchange rate on its Canadian dollar denominated Crown Note at 1.448. The cross currency swap matures on January 31, 2018.

NON-IFRS FINANCIAL MEASURES

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

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

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

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

SELECTED QUARTERLY INFORMATION

		Q1 2016		Q1 2015
Anesthesia services revenue	$	11,436,741	$	7,457,131
Product sales revenue		2,400,110		2,162,519
Total revenue		**13,836,851**		**9,619,650**
Operating expenses – adjusted[1]				
Anesthesia services		5,322,845		2,984,159
Product sales		998,234		904,185
Corporate		753,551		638,305
Total operating expenses – adjusted[1]		**7,074,630**		**4,526,649**
Operating EBITDA[2] – non-controlling interest[3]		848,443		-
Operating EBITDA[2] - shareholders of the Company		**5,913,778**		**5,093,001**
Operating EBITDA[2] - total		**6,762,221**		**5,093,001**
Operating income		3,946,049		3,319,658
Net and comprehensive income	**$**	**3,030,485**	**$**	**1,924,046**
Attributable to:				
Shareholders of the Company		2,955,548		1,924,046
Non-controlling interest[3]		74,937		-
Operating EBITDA[2] per share attributable to shareholders:				
Basic	$	0.083	$	0.083
Diluted	$	0.080	$	0.079
Earnings per share attributable to shareholders:				
Basic	$	0.041	$	0.031
Diluted	$	0.040	$	0.030
Total assets	$	106,656,345	$	89,352,156
Total non-current liabilities	$	39,956,639	$	42,599,617
Total liabilities	$	46,850,520	$	47,443,614

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

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

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

RESULTS OF OPERATIONS

Revenue

Revenues for the three months ended March 31, 2016 were $13,836,851 compared to $9,619,650 for the three months ended March 31, 2015. The increase in revenues is mainly attributable to the Company's newly acquired anesthesia service providers in the first, third and fourth quarters of 2015.

Revenues from anesthesia services for the quarter ended March 31, 2016 were $11,436,741 compared to $7,457,131 for the three months ended March 31, 2015. The Company's first anesthesia acquisition was in the fourth quarter of 2014, with additional acquisitions in the first, third and fourth quarters of 2015. As a result, the first quarter of 2016 is not directly comparable to the first quarter of 2015 due to the acquisitions completed in the second half of 2015 and a full complement of revenues from acquisitions completed in the first quarter of 2015.

For the quarter ended March 31, 2016 there were no changes in reimbursement rates for any of the payors related to our anesthesia business. There was, however, a change in payor mix based on 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 a negative impact. In the quarter ended March 31, 2016, the change in payor mix within our GAA business caused a decrease in average revenue per case of 12%, which was partially offset by an increase in patient cases of 5% within that same business. The net impact of these changes is a 7% decrease in GAA revenue for the three months ended March 31, 2016 compared to the same period in 2015. The Company's continued expansion of its anesthesia business will mitigate the effect these kinds of changes in payor mix can have on our financial results. The decrease in GAA revenue is offset by an increase in net realized revenue per case for all other acquisitions as compared to previous estimates. This net increase in realized revenue per case resulted in an upward adjustment of approximately $600,000 to anesthesia services revenue for the quarter ended March 31, 2016.

During the quarter, the anesthesia services segment serviced 24,440 patient cases.

The table below summarizes our approximate payor mix as a percentage of service volume for the first quarters of 2016 and 2015.

	Three months ended	
Payor	March 31, 2016	March 31, 2015
Medicare	33.1%	26.6%
Medicaid	3.8%	4.8%
Commercial and other	63.1%	68.6%
Total	**100.0%**	**100.0%**

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

Revenues from product sales for the quarter ended March 31, 2016 were $2,400,110 compared to $2,162,519 for the quarter ended March 31, 2015. The 11% increase in product sales is the result of the continuing successful execution of the Company's direct to physician program that provides physicians the ability to purchase our hemorrhoid banding technology, treatment protocols, marketing and operational experience. As of March 31, 2016 the Company has trained 2,240 physicians to use the O'Regan System, representing 842 clinical practices. This compares to 1,983 physicians trained, representing 730 clinical practices, as of March 31, 2015.

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

Total operating expenses - adjusted

For the quarter ended March 31, 2016, total adjusted operating expenses were $7,074,630 compared to $4,526,649 for the first quarter of 2015. The $2,547,981 increase is primarily related to adjusted operating expenses from the anesthesia acquisitions completed in the first, third and four quarters of 2015.

Anesthesia services adjusted operating expenses for the quarter ended March 31, 2016 were $5,322,845, compared to $2,984,159 in the first quarter of 2015. Anesthesia services expenses primarily include labor related cost for the medical director and certified registered nurse anesthetists, medical drugs and supplies, and billing and management related expenses. The Company's first anesthesia acquisition was in the fourth quarter of 2014, with further acquisitions completed in the first, third and fourth quarters of 2015. As a result, the first quarter of 2016 is not directly comparable to 2015.

Product sales adjusted operating expenses for the quarter were $998,234 compared to $904,185 for the comparable quarter in 2015. The increase in expenses compared to the first quarter of 2015 is a reflection of increased product cost and support resulting from increased sales. Product sales increased by 11% in the period, compared to an increase in expenses of 10%. 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 quarter ended March 31, 2016 were $753,551 compared to $638,305 for the first quarter of 2015. This reflects a growth in expenses in 2016 of $115,246. The growth in corporate expenses is primarily the result of an increase in employee related costs and, in general, is reflective of the additional activities incurred in support of the Company's expanded service offering.

Operating EBITDA

Operating EBITDA attributable to shareholders of the Company for the quarter ended March 31, 2016 was $5,913,778, an increase of $820,777 from 2015. The increase in Operating EBITDA is primarily a reflection of the Company's newly acquired anesthesia service providers and a net increase in product and corporate operating expenses.

Operating EBITDA attributable to non-controlling interest was $848,443 for the quarter ended March 31, 2016. This comprises the non-controlling interests' share of revenues of $1,474,389 and adjusted operating expenses of $625,946.

Total operating EBITDA was $6,762,221 for the quarter ended March 31, 2016, an increase of $1,669,220 from the prior year.

Operating Income

Operating income for the quarter ended March 31, 2016 was $3,946,049 compared to $3,319,658 for the quarter ended March 31, 2015, an increase of $626,391. Contributing to the improved operating income is the increase in total Operating EBITDA of $1,669,220, less incremental costs related to the amortization of acquired professional service agreements relating to acquisitions completed in 2015 of $1,072,819 and a decrease in stock based compensation expense of $78,958.

Anesthesia operating income for the quarter was $3,558,109, an increase of $490,061 from the first quarter of 2015. This is primarily reflective of the additional operating income generated by the acquisitions completed in 2015.

Product operating income for the quarter was $1,317,372, an increase of $195,189 from the first quarter of 2015. The increase is a result of the increased revenue in the quarter of $237,519, offset by increases in product expenses.

Net finance (income) / expense

As a result of the Company's debt facilities, the Company has recorded net finance income of $289,315 during the quarter, compared to net finance expense of $1,665,190 in the first quarter of 2015. Net finance expense is comprised of both interest and other debt related expenses, as well as foreign exchange gains and losses on the Crown debt which is denominated in Canadian dollars 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.

In the quarter ended March 31, 2016, the Company recorded an exchange gain of $1,517,844 in relation to the Crown note and the cross currency swap, comparable to the exchange gain of $1,402,078 recorded in the first quarter of 2015. Excluding the impact of the exchange gain in the quarter, the finance expense for the quarter was $1,228,529, compared to $3,067,268. Finance expense, excluding fair value adjustments and exchange gains, was $1,049,425, compared to $2,413,019 for the first quarter of 2015. The fair value adjustment recorded in the quarter ($179,104) resulted from changes in estimates underlying the Company's earn-out obligation. In general, the decrease in finance expense, quarter over quarter, 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 Q1 2015.

Cash interest paid in the quarter ended March 31, 2016 was $683,136.

Income tax recovery

For the quarter ended March 31, 2016, the Company recorded an income tax expense of $1,204,879 compared to an income tax recovery of $269,578 for the quarter ended March 31, 2015. The expense experienced in the quarter is a reflection of taxable income generated in both Canada and the US.

Net and comprehensive income

For the quarter ended March 31, 2016, the Company recorded net and comprehensive income attributable to shareholders of the Company of $2,955,548 compared to a net and comprehensive income attributable to shareholders of $1,924,046 for the first quarter of 2015. The increase in earnings compared to 2015 is reflective of anesthesia services' contribution to earnings and the finance income earned in the quarter, offset by tax expense in the quarter.

Net and comprehensive income attributable to non-controlling interest was $74,937 for the quarter ended March 31, 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)	Q1 '16	Q4 '15	Q3 '15	Q2 '15	Q1 '15	Q4 '14	Q3 '14	Q2 '14
Anesthesia services revenue[1]	11,437	11,330	9,195	8,514	7,457	3,386[1]	-	-
Product sales revenue	2,400	2,608	2,415	2,367	2,163	2,360	2,200	2,046
Total revenue	**13,837**	**13,938**	**11,610**	**10,881**	**9,620**	**5,746**	**2,200**	**2,046**
Operating expenses – adjusted[2]								
Anesthesia services[2]	5,323	5,061	4,023	3,460	2,984	1,255	-	-
Product sales[2]	998	950	888	981	904	978	1,034	990
Corporate[2]	754	664	798	665	639	843	445	442
Total operating expenses – adjusted[2]	**7,075**	**6,675**	**5,709**	**5,106**	**4,527**	**3,076**	**1,479**	**1,432**
Operating EBITDA[3] - non-controlling interest[4]	848	465	142	-	-	-	-	-
Operating EBITDA[3] - shareholders of the Company	**5,914**	**6,797**	**5,759**	**5,775**	**5,093**	**2,670**	**721**	**614**
Operating EBITDA[3] - total	**6,762**	**7,264**	**5,901**	**5,775**	**5,093**	**2,670**	**721**	**614**
Operating income	3,946	4,673	2,285	3,154	3,320	1,285	630	501
Net finance (income) expense	(289)	5,914	1,013	4,492	1,665	1,623	-	-
Income tax expense (recovery)	1,204	(1,541)	(442)	(661)	(269)	(721)	210	174
Net income (loss)	**3,031**	**299**	**1,714**	**(678)**	**1,924**	**383**	**420**	**327**
Attributable to:								
Shareholders of the Company	2,956	154	1,676	(678)	1,924	383	420	327
Non-controlling interest[(4)]	75	145	38	-	-	-	-	-
Operating EBITDA per share attributable to shareholders								
Basic	0.083	0.096	0.083	0.083	0.083	0.056	0.015	0.013
Diluted	0.080	0.092	0.080	0.083	0.080	0.049	0.015	0.012
Earnings per share attributable to shareholders								
Basic	0.041	0.002	0.024	(0.010)	0.031	0.008	0.009	0.007
Diluted	0.040	0.002	0.023	(0.010)	0.030	0.007	0.009	0.007

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2016, the Company had $6,697,256 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.

Working capital was $6,814,354 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 through cash earned through operating activities.

The Company has financed its operations primarily from revenues generated from product and anesthesia services and through equity and debt financings. As of March 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. There have been no changes in the Crown note or Scotia Facility since December 31, 2015. The Company's outstanding credit facilities are described as follows:

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

On December 1, 2014, the Company entered into an agreement to borrow funds in the form of a subordinated note payable from Norrep Credit Opportunities Fund II, LP. At inception, the original amount of the note payable was CAD$22,500,000 (USD$19,863,000). The note bears interest at 12% per annum with a decrease to 10% upon repayment and performance in full of the Company's obligations under its senior credit agreement (see Scotia Facility). Interest on the note is payable on a quarterly basis beginning March 31, 2015, with the payment of the principal scheduled for June 1, 2018, but prepayment without penalty is available to the Company as of December 1, 2017.

The Bank of Nova Scotia ("Scotia Facility")

On November 24, 2015, the Company entered into a credit facility with the Bank of Nova Scotia. The facility, which has a maturity date of April 30, 2018, provides financing of up to $33,000,000. As at March 31, 2016, the Company had drawn $16,000,000 on the facility. The facility is repayable in full at maturity, with scheduled principal repayments on a quarterly basis beginning March 31, 2016 based upon the outstanding balance of the credit facility. The facility is a revolving credit facility which the Company may terminate at any time without penalty. The credit facility bears interest at a floating rate based on the US prime rate, LIBOR or bankers' acceptance rates plus an applicable margin. At March 31, 2016, the interest rate on the facility was LIBOR plus 2.50%. Commitment fees, legal fees directly related to the credit facility, and standby charges usual for borrowings of this nature were paid. The Facility is secured by the assets of the Company.

The Company is required to maintain the following financial covenants in respect of the facility:

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

As at March 31, 2016, the Company is in compliance with all debt covenants relating to the Crown Note and Scotia Facility.

Although the Company recorded net earnings for the current period and for the years ended December 31, 2015 and 2014, the Company has incurred historical losses, and as at March 31, 2016 had an accumulated deficit of $6,875,530. The Company expects that going forward cash from operating activities will be positive and will be sufficient to fund the current business.

Cash provided by operating activities for the quarter ended March 31, 2016 was $5,524,822 compared to $2,059,756 for the first quarter of 2015.

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

There were no significant changes in the Company's contractual commitments compared with those set forth in the Company's 2015 Management Discussion and Analysis, available on SEDAR at www.sedar.com

OUTSTANDING SHARE CAPITAL

As at March 31, 2016, there were 71,349,648 common shares issued and outstanding for a total of $51,362,703 in share capital.

As at March 31, 2016, there were 2,878,061 options outstanding at a weighted-average exercise price of $0.46 per share, of which 2,122,757 were exercisable into common shares at a weighted-average exercise price of $0.44 per share. As at March 31, 2016, there were 1,494,000 share units issued and outstanding.

As at April 27, 2016 there were 71,449,648 common shares issued and outstanding for a total of $51,434,015 in share capital. There are 2,778,061 options outstanding at a weighted-average exercise price of $0.47 per share, of which 2,094,632 were exercisable into common shares at a weighted average price of $0.46 per share. As at April 27, 2016, there were 1,494,000 share units issued and outstanding.

OFF BALANCE SHEET ARRANGEMENTS

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

PROPOSED TRANSACTIONS

As at March 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 subsidiaries and entities over which the Company has control have been eliminated on consolidation. There have been no changes to the Company's identification of related parties, as defined under IAS 24, Related Party Disclosures.

For the period ended March 31, 2016, the Company had related party transactions with key management personnel pertaining to the ordinary course of their employment or directorship arrangements. In addition, the Company made product sales to companies owned or controlled by two of the Company's Directors.

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

The Company's disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed in the prescribed filings and reports filed with the Canadian securities regulatory authorities is recorded, processed, summarized and reported on a timely basis. The Company's controls are also designed to provide reasonable assurance that information required to be disclosed is assimilated and communicated to senior management in a timely manner so that appropriate decisions can be made regarding public disclosure.

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

During the first quarter of 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.

CRITICAL ACCOUNTING ESTIMATES

There were no significant changes to the Company's critical accounting estimates during the quarter ended March 31, 2016, except as noted below:

- Management reviews its estimates related to the average revenue per unit of time collected for anesthesia services on an ongoing basis. At March 31, 2016, the Company has updated the average revenue per unit based on historical data from operations. This has served to increase revenue in the quarter ended March 31, 2016 by approximately $600,000.

CRH's critical accounting estimates are described in its MD&A for the year ended December 31, 2015, filed under the Company's profile on www.sedar.com.

FUTURE CHANGES IN ACCOUNTING POLICIES

All accounting standards effective for periods beginning on or after January 1, 2016 have been adopted by the Company. New accounting pronouncements issued but not yet effective are described in note 3 to the annual consolidated financial statements for the year ended December 31, 2015. There are no new standards issued subsequent to December 31, 2015 which are considered to have an impact on the Company.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, derivative assets, trade and other payables, employee benefit obligations, short term advances, notes payable and bank indebtedness, and the Company's earn-out obligation. The fair values of these financial instruments, except the derivative asset, notes payable balances 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.

Cash and cash equivalents and trade and other receivables are classified as loans and receivables, which are measured at amortized cost. Trade and other payables, employee benefit obligations and short term advances are classified as other financial liabilities, which are measured at amortized cost. Notes payable balances and bank indebtedness, excluding the earn-out obligation, are measured at amortized cost.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk and market risk. There have been no significant changes to those risks impacting the Company since December 31, 2015, nor has there been a significant change in the composition of its financial instruments since December 31, 2015, except for the following.

- On January 21, 2016, the Company entered into a cross currency swap to mitigate foreign exchange exposure on its Canadian dollar denominated Crown Note. The Company accounts for the cross currency swap as a derivative financial instrument and has recorded the fair value of the instrument on the balance sheet at March 31, 2016 with changes in the fair value of the instrument recorded through earnings in the period; and
- The Company uses a probability weighted valuation technique in calculating the fair value of the earn-out obligation. This valuation technique included inputs relating to estimated cash outflows under the arrangement and the use of a discount rate appropriate to the Company. The Company evaluates the inputs into the probability weighted valuation technique at each reporting period. During the three months ended March 31, 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 downward adjustment of the discount rate from 4.42% at December 31, 2015 to 3.86% at March 31, 2016 resulted in an increase of $179,104 to the fair value of the earn-out obligation. The impact of this adjustment was recorded through finance expense in the period.

NON-IFRS MEASUREMENTS

The following are non-IFRS measures and investors are cautioned not to place undue reliance on them and are urged to read all IFRS accounting disclosures present in the condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2016 and consolidated financial statements and accompanying notes for the year ended December 31, 2015.

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

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

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

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

Operating EBITDA

For the three months ended	2016	2015				2014			
(USD in thousands)	Mar	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar
Operating EBITDA attributable to:									
Shareholders of the Company	5,914	6,797	5,758	5,775	5,093	2,670	721	614	691
Non-controlling interest	848	465	142	-	-	-	-	-	-
Total Operating EBITDA	**6,762**	**7,263**	**5,900**	**5,775**	**5,093**	**2,670**	**721**	**614**	**691**
Amortization expense	(2,475)	(2,188)	(1,745)	(1,459)	(1,402)	(458)	-	-	-
Depreciation and related expense	(15)	(18)	(17)	(17)	(12)	(13)	(10)	(12)	(18)
Stock based compensation	(264)	(261)	(1,001)	(1,145)	(343)	(69)	(82)	(101)	(110)
Acquisition expenses	(62)	(123)	(221)	-	(16)	(845)	-	-	-
Impairment of inventory	-	-	(241)	-	-	-	-	-	-
Impairment of intangible assets	-	-	(390)	-	-	-	-	-	-
Operating income	**3,946**	**4,673**	**2,285**	**3,154**	**3,320**	**1,285**	**629**	**501**	**563**

Operating expenses - adjusted

For the three months ended	2016	2015				2014			
(USD in thousands)	Mar	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar
Anesthesia services operating expense – adjusted	**5,323**	**5,061**	**4,023**	**3,460**	**2,984**	**1,255**	**-**	**-**	**-**
Amortization expense	2,475	2,188	1,745	1,459	1,403	458	-	-	-
Depreciation and related expense	2	4	3	2	-	-	-	-	-
Stock based compensation	17	12	13	10	2	-	-	-	-
Acquisition expenses	62	123	221	-	-	-	-	-	-
Impairment of intangible assets	-	-	390	-	-	-	-	-	-
Anesthesia services expense	**7,879**	**7,389**	**6,395**	**4,931**	**4,389**	**1,713**	**-**	**-**	**-**
Product sales operating expense – adjusted	**998**	**950**	**888**	**981**	**904**	**978**	**1,034**	**990**	**867**
Amortization expense	-	-	-	-	-	-	-	-	-
Depreciation and related expense	1	1	1	1	1	1	-	1	7
Stock based compensation	84	81	106	80	136	22	19	21	31
Impairment of inventory	-	-	241	-	-	-	-	-	-
Product sales expense	**1,083**	**1,031**	**1,236**	**1,062**	**1,041**	**1,001**	**1,053**	**1,012**	**905**
Corporate operating expenses – adjusted	**754**	**664**	**798**	**665**	**638**	**843**	**445**	**442**	**434**
Amortization expense	-	-	-	-	-	-	-	-	-
Depreciation and related expense	13	14	14	14	11	12	10	11	11
Stock based compensation	162	167	882	1,056	205	47	63	80	79
Acquisition expenses	-	-	-	-	16	845	-	-	-
Corporate expense	**929**	**845**	**1,694**	**1,735**	**870**	**1,747**	**518**	**533**	**524**
Total operating expense – adjusted	**7,075**	**6,675**	**5,709**	**5,106**	**4,527**	**3,076**	**1,479**	**1,432**	**1,301**
Total operating expense	**9,891**	**9,265**	**9,325**	**7,728**	**6,300**	**4,461**	**1,571**	**1,545**	**1,429**

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

CRH MEDICAL CORPORATION

(Unaudited)

Three months ended March 31, 2016 and 2015

CRH MEDICAL CORPORATION

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

As at March 31, 2016 and December 31, 2015

	Notes	March 31, 2016	December 31, 2015
Assets			
Current assets:			
Cash and cash equivalents		$ 6,697,256	$ 3,572,344
Trade and other receivables		6,295,403	7,091,549
Prepaid expenses and deposits		459,382	484,795
Inventories		256,194	254,924
		13,708,235	11,403,612
Non-current assets:			
Property and equipment		372,145	284,706
Intangible assets		84,823,271	87,307,267
Derivative asset	8	2,434,120	-
Deferred tax assets		5,318,574	5,499,693
		92,948,110	93,091,666
Total assets		$ 106,656,345	$ 104,495,278
Liabilities			
Current liabilities:			
Trade and other payables		$ 2,194,201	$ 3,034,363
Employee benefits		155,383	142,576
Current tax liabilities		637,875	869,556
Notes payable	9	3,805,622	3,818,048
Loan		100,800	266,994
		6,893,881	8,131,537
Non-current liabilities:			
Notes payable	9	27,075,790	26,920,418
Earn-out obligation	12	12,783,617	12,468,958
Deferred tax liability		97,232	-
		39,956,639	39,389,376
Equity			
Share capital	10	51,362,703	51,066,044
Contributed surplus		6,698,267	6,556,951
Accumulated other comprehensive loss		(66,772)	(66,772)
Deficit		(6,875,530)	(9,831,078)
Total equity attributable to shareholders of the Company		51,118,668	47,725,145
Non-controlling interest		8,687,157	9,249,220
Total equity		59,805,825	56,974,365
Total liabilities and equity		$ 106,656,345	$ 104,495,278

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board:

(signed) "Edward Wright" Director
Edward Wright

(signed) "Anthony Holler" Director
Anthony Holler

CRH MEDICAL CORPORATION

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

Three months ended March 31, 2016 and 2015

	Notes	Three months ended March 31, 2016	March 31, 2015
Revenue:			
Anesthesia services	13	$ 11,436,741	$ 7,457,131
Product sales	13	2,400,110	2,162,519
		13,836,851	9,619,650
Expenses:			
Anesthesia services expense	5	7,878,632	4,389,083
Product sales expense	6	1,082,738	1,040,336
Corporate expense	7	929,432	870,573
		9,890,802	6,299,992
Operating income		3,946,049	3,319,658
Net finance income	11	(1,517,844)	(1,402,078)
Net finance expense	11	1,228,529	3,067,268
Income before tax		4,235,364	1,654,468
Income tax expense (recovery)		1,204,879	(269,578)
Net and comprehensive income		$ 3,030,485	$ 1,924,046
Attributable to:			
Shareholders of the Company		$ 2,955,548	$ 1,924,046
Non-controlling interest		74,937	-
		$ 3,030,485	$ 1,924,046
Earnings per share attributable to shareholders			
Basic	10(c)	$ 0.041	$ 0.031
Diluted	10(c)	$ 0.040	$ 0.030
Weighted average shares outstanding:			
Basic		71,249,783	61,466,638
Diluted		73,988,230	64,456,374

See accompanying notes to condensed consolidated interim financial statements.

CRH MEDICAL CORPORATION

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

Three months ended March 31, 2016 and 2015

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	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 period	-	-	-	-	1,924,046	-	1,924,046
Transactions with owners, recorded directly in equity:							
Stock-based compensation expense	-	-	342,693	-	-	-	342,693
Common shares purchased on exercise of options	128,750	152,846	(34,973)	-	-	-	117,873
Shares issued through share offering, net of fees (note 10)	8,050,000	20,284,399	-	-	-	-	20,284,399
Deferred tax recovery on share issuance costs	-	452,169	-	-	-	-	452,169
Broker warrants issued in share offering (note 10)	-	(249,149)	249,149	-	-	-	-
Balance as at March 31, 2015	69,060,697	46,554,104	6,404,433	(66,772)	(10,983,223)	-	41,908,542
Balance as at January 1, 2016	71,206,547	51,066,044	6,556,951	(66,772)	(9,831,078)	9,249,220	56,974,365
Total net and comprehensive income for the period	-	-	-	-	2,955,548	74,937	3,030,485
Transactions with owners, recorded directly in equity:							
Stock based compensation expense	-	-	263,735	-	-	-	263,735
Common shares purchased on exercise of options	96,250	127,229	(74,084)	-	-	-	53,145
Exercise of broker warrants (note 10)	46,851	169,430	(48,335)	-	-	-	121,095
Distribution to non-controlling interest	-	-	-	-	-	(637,000)	(637,000)
Balance as at March 31, 2016	71,349,648	51,362,703	6,698,267	(66,772)	(6,875,530)	8,687,157	59,805,825

See accompanying notes to condensed consolidated interim financial statements.

CRH MEDICAL CORPORATION

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

Three month periods ended March 31, 2016 and 2015

	Notes	Three months ended March 31, 2016	Three months ended March 31, 2015
Cash provided by (used in)			
Operating activities:			
Net and comprehensive income		$ 3,030,485	$ 1,924,046
Adjustments for:			
Depreciation and amortization of property, equipment and intangibles		2,490,587	1,414,568
Stock based compensation expense		263,735	342,693
Unrealized foreign exchange (gain)		(1,528,218)	(1,396,695)
Finance expense		1,228,529	3,067,268
Income tax expense (recovery)		1,204,879	(269,578)
Operating activity before changes in operating assets and liabilities		6,689,997	5,082,302
Taxes paid		(1,158,109)	(207,000)
Change in trade and other receivables		796,146	1,526,228
Change in prepaid expenses and deposits		25,413	(133,066)
Change in inventories		(1,270)	140,160
Change in trade and other payables		(840,162)	(4,363,625)
Change in employee benefits		12,807	14,757
Cash provided by operating activities		5,524,822	2,059,756
Financing activities			
Net proceeds on the issuance of shares		-	20,284,399
Repayment of loan		(166,194)	-
Repayment of notes payable principal		(1,000,000)	(8,219,519)
Repayment of notes payable interest		(683,136)	(1,434,139)
Distribution to non-controlling interest		(637,000)	-
Proceeds from the exercise of broker warrants		121,095	-
Proceeds from the issuance of shares relating to stock based compensation		53,145	117,873
Cash provided by (used in) financing activities		(2,312,090)	10,748,614
Investing activities			
Acquisition of property and equipment		(94,031)	(22,693)
Acquisition of anesthesia services provider	4	-	(600,000)
Cash used in investing activities		(94,031)	(622,693)
Effects of foreign exchange on cash and cash equivalents		6,211	(5,455)
Increase in cash and cash equivalents		3,124,912	12,180,222
Cash and cash equivalents, beginning of period		3,572,344	4,133,663
Cash and cash equivalents, end of period		$ 6,697,256	$ 16,313,885

See accompanying notes to condensed consolidated interim financial statements.

1. Reporting entity:

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

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

2. Basis of preparation:

(a) Statement of compliance:

These unaudited condensed consolidated interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Accordingly, these condensed consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). These condensed consolidated interim financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2015. In management's opinion, all adjustments considered necessary for fair presentation have been included in these financial statements. Interim results are not necessarily indicative of the results expected for the fiscal year.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on April 27, 2016.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

2. Basis of preparation (continued):

(d) Use of estimates, assumptions and judgments:

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

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

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

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

3. Significant accounting policies:

These condensed consolidated interim financial statements have been prepared using the significant accounting policies and methods of computation consistent with those applied in the Company's December 31, 2015 annual consolidated financial statements.

The Company has not early adopted any amendment, standard or interpretation that has been issued by the IASB but is not yet effective. Amendments, standards and interpretations that are issued but not yet effective are described in the Company's annual financial statements for the period ended December 31, 2015.

(Expressed in United States dollars)

4. Business combinations:

During the year ended December 31, 2015, the Company completed five business combinations. All business combinations completed during the year have been included in the anesthesia segment of the Company and include the following:

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

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

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

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

As a result of the above business combinations completed in 2015, the Company recognized intangible assets totaling $28,921,628 during the year ended December 31, 2015, along with non-controlling interest of $9,065,583.

(Expressed in United States dollars)

5. Anesthesia services expense:

For the three month periods ended March 31:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Employee related	$ 3,400,868	$ 1,707,300
Depreciation and amortization	2,477,173	1,402,585
Bad debt expense	652,606	383,706
Office related	980,371	730,711
Acquisition expense	61,850	-
Medical supplies	190,822	162,042
Stock based compensation	16,763	2,339
Professional fees	85,072	400
Insurance	13,107	-
	$ 7,878,632	$ 4,389,083

6. Product sales expense:

For the three month periods ended March 31:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Employee related	$ 358,522	$ 331,471
Product cost and support	486,490	463,046
Professional fees	73,690	38,853
Office related	60,398	50,662
Stock based compensation	83,880	135,502
Insurance	13,721	14,275
Depreciation and amortization	624	649
Foreign exchange	5,413	5,878
	$ 1,082,738	$ 1,040,336

(Expressed in United States dollars)

7. Corporate expense:

For the three month periods ended March 31:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Employee related	$ 323,331	$ 246,009
Professional expenses	153,233	162,978
Corporate	109,646	93,341
Stock based compensation	163,092	204,852
Travel and entertainment	56,097	62,244
Office related	41,733	33,902
Insurance	60,962	41,440
Acquisition expenses	-	16,082
Depreciation and amortization	12,790	11,334
Foreign exchange	8,548	(1,609)
	$ 929,432	$ 870,573

8. Derivative asset:

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

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

9. Notes payable:

March 31, 2016	Crown Note	Scotia Facility	Total
Current portion	$ -	3,805,622	$ 3,805,622
Non-current portion	15,286,364	11,789,426	27,075,790
Total loans and borrowings	$ 15,286,364	15,595,048	$ 30,881,412

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

(Expressed in United States dollars)

9. Notes payable (continued):

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

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

The Bank of Nova Scotia ("Scotia Facility")

On November 24, 2015, the Company entered into a credit facility with the Bank of Nova Scotia. The facility, which has a maturity date of April 30, 2018, provides financing of up to $33,000,000. As at March 31, 2016, the Company had drawn $16,000,000 on the facility (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 credit facility. The facility is a revolving credit facility which the Company may terminate at any time without penalty. The credit facility bears interest at a floating rate based on the US prime rate, LIBOR or bankers' acceptance rates plus an applicable margin. At March 31, 2016, the interest rate on the facility was LIBOR plus 2.50%. Commitment fees, legal fees directly related to the credit facility, and standby charges usual for borrowings of this nature were paid. The Facility is secured by the assets of the Company. The Company is required to maintain the following financial covenants in respect of the facility:

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

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

	Minimum Principal
At March 31, 2016	
Not later than one year	$ 4,000,000
Between one and five years	$ 30,325,000
	$ 34,325,000

(Expressed in United States dollars)

10. Share capital:

(a) 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 $48,335 (CAD$60,502).

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). Additional share issuance costs of $269,540 (CAD$337,388) were incurred in relation to the offering. The Company recorded a deferred tax asset of $452,169 in relation to those share issuance costs incurred in relation to the offering. The deferred tax asset has been offset against share capital.

(b) Share unit plan:

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

A summary of the status of the plan as of March 31, 2016 and 2015 is as follows:

	Time based share units	Performance based share units
Outstanding, January, 2015	-	-
Issued	276,000	2,000,000
Exercised	-	-
Forfeited	-	-
Expired	-	-
Outstanding, March 31, 2015	276,000	2,000,000
Outstanding, January 1, 2016	509,000	1,000,000
Issued	-	-
Exercised	-	-
Forfeited	-	-
Expired	(15,000)	-
Outstanding, March 31, 2016	494,000	1,000,000

10. Share capital (continued):

(b) Share unit plan (continued):

As at March 31, 2016, the Company had 494,000 share units ("Time based share units") outstanding. Of these units, 414,000 units vest over a 4 year term, with 50% vesting on the second anniversary and 25% vesting on each of the third and fourth anniversaries and 80,000 units vest over 1.25 years. The remaining 1,000,000 share units ("Performance based share units") vest upon the Company meeting certain market based performance targets and expire on February 20, 2020.

As at March 31, 2015, the Company had 276,000 share units ("Time based share units") outstanding. Of these units, 276,000 units vest over a 4 year term, with 50% vesting on the second anniversary and 25% vesting on each of the third and fourth anniversaries. The remaining 2,000,000 share units ("Performance based share units") vest upon the Company meeting certain market based performance targets and expire on February 20, 2020.

During the quarter ended March 31, 2015, the Company issued 276,000 share units ("Time based share units"). The fair value per unit was $2.97 (CAD$3.72) based on the market value of the underlying shares at the date of issuance. The Company also issued 2,000,000 share units ("Performance based share units"). These share units vest upon the Company meeting certain market based performance targets. 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.

During the quarter ended March 31, 2016, the Company recognized $231,399 (2015 - $195,083) in compensation expense in relation to the granting and vesting of share units.

(c) Stock option plan:

During the quarter ended March 31, 2016, the Company recognized $32,336 (2015 - $147,610) in compensation expense in relation to the granting and vesting of stock options.

(Expressed in United States dollars)

10. Share capital (continued):

(c) Earnings per share:

The calculation of basic earnings per share for the three months ended March 31, 2016 and 2015 is as follows:

	Three months ended March 31								
	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	$	2,955,548	71,249,783	$	0.041	$	1,924,046	61,466,638	$	0.031
Share options			2,440,608					2,713,736		
Share units			198,176					276,000		
Broker warrants			99,663					-		
Diluted	$	2,955,548	73,988,230	$	0.040	$	1,924,046	64,456,374	$	0.030

For the three months ended March 31, 2016, 483,496 options (2015 – 921,264) and 1,300,439 share units (2015 – 2,000,000) were excluded from the diluted weighted average number of common shares calculation.

11. Net finance expense

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

	Three months ended			
		March 31, 2016		March 31, 2015
Finance income:				
Foreign exchange gain	$	(1,517,844)	$	(1,402,078)
Total finance income	$	(1,517,844)	$	(1,402,078)
Finance expense:				
Interest and accretion expense on borrowings	$	865,273	$	1,896,367
Accretion expense on earn-out obligation		135,555		314,356
Amortization of deferred financing fees		48,597		202,296
Net change in fair value of financial liabilities at fair value through earnings		179,104		654,249
Total finance expense	$	1,228,529	$	3,067,268
Net finance (income) expense	$	(289,315)	$	1,665,190

12. Financial instruments:

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, derivative assets, trade and other payables, employee benefit obligations, short term advances, loans, notes payable, and the Company's earn-out obligation. The fair values of these financial instruments, except the derivative asset, notes payable balances 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.

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

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

(Expressed in United States dollars)

12. Financial instruments (continued):

The Company's derivative asset is carried at fair value as disclosed in note 8. The fair value of the derivative asset is determined using models to estimate the present value of expected future cash flows. The derivative swap 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 Company has used a probability weighted valuation technique in calculating the fair value of the earn-out obligation. This valuation technique included inputs relating to estimated cash outflows under the arrangement and the use of a discount rate appropriate to the Company. The Company evaluates the inputs into the probability weighted valuation technique at each reporting period. During the three months ended March 31, 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 downward adjustment of the discount rate from 4.42% at December 31, 2015 to 3.86% at March 31, 2016 resulted in an increase of $179,104 to the fair value of the earn-out obligation. The impact of this adjustment was recorded through finance expense in the period.

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 $317,385. During the three months ended March 31, 2016, the Company recorded accretion expense of $135,555 in relation to this liability, reflecting the change in fair value of the liabilities that is attributable to credit risk.

Reconciliation of level 3 fair values:

	Earn-out Obligation
Balance as at January 1, 2016	$12,468,958
Recorded in finance expense:	
Accretion expense	135,555
Fair value adjustment	179,104
Balance as at March 31, 2016	$12,783,617

13. Segmented information:

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

	Three months ended	
Revenue:	March 31, 2016	March 31, 2015
Canada and other	$ 59,823	$ 41,111
United States	13,777,028	9,578,539
Total	$ 13,836,851	$ 9,619,650

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

	2016	**2015**
Property and equipment:		
Canada	$ 356,772	$ 269,350
United States	15,373	15,356
Total	$ 372,145	$ 284,706
Intangible assets:		
Canada	$ 57,805	$ 66,397
United States	84,765,466	87,240,870
Total	$ 84,823,271	$ 87,307,267

The financial measures reviewed by the Company's Chief Operating Decision Maker are presented below for the three month periods ended March 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.

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

	Three months ended March 31, 2015			
	Anesthesia services	**Product sales**	**Other**	**Total**
Revenue	$ 7,457,131	$ 2,162,519	$ -	$ 9,619,650
Operating costs	4,389,083	1,040,336	870,573	6,299,992
Operating income (loss)	$ 3,068,048	$ 1,122,183	$ (870,573)	$ 3,319,658