Viemed Group

Condensed Combined Interim Financial Statements

2017 Third Quarter

For the Three and Nine Month Periods Ended
September 30, 2017 and September 30, 2016
(UNAUDITED)

(Expressed in U.S. dollars)

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VIEMED GROUP
CONDENSED COMBINED INTERIM STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)

(Expressed in thousands of US Dollars)

	Notes	As at September 30, 2017	As at December 31, 2016
ASSETS			
Current			
Cash and cash equivalents		$ 7,273	$ 4,339
Accounts receivable		4,671	4,793
Inventory	3	1,609	1,638
Prepaid expenses and other current assets		625	426
Total current assets		14,178	11,196
Long-term			
Property and equipment, net	4	18,562	13,483
Total long-term assets		18,562	13,483
TOTAL ASSETS		$ 32,740	$ 24,679
LIABILITIES			
Current Liabilities			
Accounts payable		$ 2,053	$ 1,883
Accounts payable – related party	10	2,055	2,463
Accrued liabilities		1,920	963
Financial lease payable	5	4,480	3,401
Current portion of long-term debt	5	-	458
Total current liabilities		10,508	9,168
Long-Term Liabilities			
Long-term finance lease	5	1,150	2,631
Total long-term liabilities		1,150	2,631
TOTAL LIABILITIES		11,658	11,799
MEMBERS' / SHAREHOLDERS' EQUITY			
Members' / Shareholders' equity	6	67	67
Retained earnings	6	21,015	12,813
TOTAL SHAREHOLDERS' EQUITY		21,082	12,880
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 32,740	$ 24,679

Commitments (Note 7)

APPROVED ON BEHALF OF THE BOARD:

signed "*Casey Hoyt*" signed "*Michael Moore*"

The accompanying notes are an integral part of these condensed combined interim financial statements.

VIEMED GROUP
CONDENSED COMBINED INTERIM STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(Expressed in thousands of US Dollars)

	Notes	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Revenue		$ 12,451	$ 7,925	$ 33,380	$ 22,165
Cost of revenue	3	882	1,608	2,925	5,304
Gross margin		11,569	6,317	30,455	16,861
Selling, general and administrative	8	6,885	5,455	20,179	17,305
Depreciation	4	662	357	1,804	975
Loss (gain) on disposal of property and equipment		(6)	(126)	162	(72)
Other expense		-	160	-	160
Net income (loss) before financing expenses		4,028	471	8,310	(1,507)
Financing expenses					
Interest Expense	5	67	97	223	253
Net income (loss) before taxes		3,961	374	8,087	(1,760)
Recovery of income taxes		(57)	(14)	(115)	-
Net income (loss) and comprehensive income (loss)		$ 4,018	$ 388	$ 8,202	$ (1,760)
Net income (loss) per share					
Basic and diluted	9	$ 0.67	$ 0.06	$ 1.37	$ (0.29)
Weighted average number of common shares outstanding:					
Basic and diluted		6,000	6,000	6,000	6,000

The accompanying notes are an integral part of these condensed combined interim financial statements.

VIEMED GROUP
CONDENSED COMBINED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(Expressed in thousands of US Dollars)

	Members' / shareholders' equity (Note 6)	Retained earnings	Total members'/ shareholders' equity
Shareholders' equity, December 31, 2015	**$ 67**	**$ 11,585**	**$ 11,652**
Net loss		(1,760)	(1,760)
Shareholders' equity, September 30, 2016	**$ 67**	**$ 9,825**	**$ 9,892**
Shareholders' equity, December 31, 2016	**$ 67**	**$ 12,813**	**$ 12,880**
Net Income		8,202	8,202
Shareholders' equity, September 30, 2017	**$ 67**	**$ 21,015**	**$ 21,082**

The accompanying notes are an integral part of these condensed combined interim financial statements.

VIEMED GROUP
CONDENSED COMBINED INTERIM STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Expressed in thousands of US Dollars)

	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Operating activities		
Net income (loss)	$ 8,202	$ (1,760)
Adjustments for:		
Depreciation	1,804	975
Loss (gain) on disposal of property and equipment	162	(72)
Bad debt expense	3,726	3,075
Net change in working capital		
Increase in accounts receivable	(3,604)	(651)
Decrease in inventory	29	67
Increase in accounts payable	170	1,312
Increase (decrease) in accounts payables – related parties	(408)	1,669
Increase in accrued liabilities	957	142
Decrease in income tax payable	-	(1,119)
Increase in prepaid expenses and other current assets	(199)	(21)
Net cash flow provided by operating activities	$ 10,839	$ 3,617
Investing activities		
Purchase of property and equipment	(2,839)	(2,393)
Proceeds from sale of property and equipment	423	855
Net cash flow used in investing activities	$ (2,416)	$ (1,538)
Financing activities		
Payment of finance lease liabilities	(5,031)	(1,512)
Payment of long term debt	(458)	(1,101)
Net cash flow used in financing activities	$ (5,489)	$ (2,613)
Net increase (decrease) in cash and cash equivalents	2,934	(534)
Cash and cash equivalents, beginning of period	4,339	3,148
Cash and cash equivalents, end of period	$ 7,273	$ 2,614
Non-cash Transactions:		
Property and equipment financed through finance leases and long-term debt	$ 4,629	$ 1,836

The accompanying notes are an integral part of these condensed combined interim financial statements.

1. Nature of operations

(a) Reporting entity

The condensed combined interim financial statements incorporate the financial position and operations of Sleep Management, LLC (“Sleep”), that offers customers requiring respiratory services and related equipment an appropriate selection of home medical products including non-invasive ventilators, continuous positive airway pressure (“CPAP”) machines and oxygen units, as well as the services of experienced respiratory therapists, and Home Sleep Delivered, LLC (“HSD”), that deals with snoring problems by allowing a patient to determine the existence of sleep apnea at home at a fraction of the cost of lab studies (collectively the “Company” or the “Viemed Group”). The Company operates in the United States. Sleep and HSD were incorporated in 2010. Both companies shared identical ownership prior to being acquired by Patient Home Monitoring Corp. (“PHM”) in June of 2015. Prior to the PHM acquisition, Sleep operated as an “S” corporation and HSD operated as a partnership for income tax purposes. Subsequent to the acquisition, Sleep has operated as a “C” corporation while HSD has remained a partnership for income tax purposes.

These condensed combined interim financial statements have been prepared for inclusion in the filing documents with the regulators relating to the Company’s contemplated spin off from PHM and are prepared on a going concern basis. The application of the going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of operation. If this assumption were not appropriate, adjustments to these combined financial statements may be necessary.

2. Summary of significant accounting policies

The significant accounting policies used in the preparation of the condensed combined interim financial statements are as follows:

(a) Unreserved statement of compliance

These unaudited condensed combined interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. These condensed combined interim financial statements do not include all the disclosures required in annual combined financial statements, and should be read in conjunction with the Company’s audited combined financial statements for the years ended December 31, 2016 and 2015.

The Company has followed the same basis of presentation, accounting policies and method of computation for these condensed combined interim financial statements as disclosed in the annual audited combined financial statements for the years ended December 31, 2016 and 2015. The unaudited condensed combined interim financial statements were approved and authorized for issuance by the Board of Directors on December 15, 2017.

(b) Reporting currency

The condensed combined interim financial statements, which are presented in United States dollars, have been prepared under the historical cost convention, as modified by the measurement at fair values of certain financial assets and financial liabilities.

(c) Accounting standards issued but not yet effective

i. IFRS 15 Revenue from Contracts with Customers - In May 2014, the International Accounting Standards Board (“IASB”) issued a new International Financial Reporting Standard (“IFRS”) on the recognition of revenue from contracts of customers. IFRS 15 specifics how and when entities recognize revenue, as well as requires more detailed and relevant disclosures. The standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company is in the process of assessing the impact of the new standard on its results of operations, financial position and disclosures.

(Tabular dollar amounts expressed in thousands of U.S. Dollars, except per share amounts)

ii. IFRS 9 Financial Instruments - In July 2014, the IASB issued the final version of IFRS 9 (2014) as a complete standard including the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. This Standard will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018 with early adoption permitted. The Company is in the process of assessing the impact of the new standard on its results of operations, financial position and disclosures.

iii. IFRS 16 Leases - In January 2016, the IASB issued a new IFRS on lease accounting which was incorporated into Part I of the CPA Canada Handbook – Accounting by the ACSB in June 2016. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Lease assets and liabilities are initially recognized on a present value basis and subsequently, similarly to other non-financial assets and financial liabilities, respectively. The lessor accounting requirements are substantially unchanged and, accordingly, continue to require classification and measurement as either operating or finance leases. The new standard also introduces detailed disclosure requirements for both the lessee and lessor. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that also apply IFRS 15 Revenue from Contracts with Customers. The Company is in the process of assessing the impact of the new standard on its results of operations, financial position and disclosures.

3. Inventory

	As at September 30, 2017	As at December 31, 2016
Serialized	$ 895	$ 1,018
Non-serialized	$ 714	$ 620
Total inventory	$ 1,609	$ 1,638

	Three months ending September 30,		Nine months ending September 30,	
	2017	2016	2017	2016
Inventory Expensed	$ 525	$ 527	$ 1,817	$ 1,706

(Tabular dollar amounts expressed in thousands of U.S. Dollars, except per share amounts)

4. Property and equipment

Cost	Monitoring equipment	Computer equipment	Office furniture and fixtures	Leasehold improvements	Vehicles	Machinery and equipment	Total
Balance December 31, 2015	**$ 9,320**	**$ 470**	**$ 201**	**$ 82**	**$ 1,358**	**$ -**	**$ 11,431**
Additions	5,900	97	43	64	259	-	**6,363**
Disposals	(762)	-	-	-	(55)	-	**(817)**
Balance December 31, 2016	**$ 14,458**	**$ 567**	**$ 244**	**$ 146**	**$ 1,562**	**$ -**	**$ 16,977**
Additions	7,336	56	2	31	39	4	**7,468**
Disposals	(806)	-	-	-	(14)	-	**(820)**
Balance September 30, 2017	**$ 20,988**	**$ 623**	**$ 246**	**$ 177**	**$ 1,587**	**$ 4**	**$ 23,625**

Accumulated depreciation	Monitoring equipment	Computer equipment	Office furniture and fixtures	Leasehold improvements	Vehicles	Machinery and equipment	Total
Balance December 31, 2015	**$ 1,417**	**$ 174**	**$ 40**	**$ 30**	**$ 508**	**$ -**	**$ 2,169**
Depreciation	1,096	80	29	21	198	-	1,424
Disposals	(88)	-	-	-	(11)	-	(99)
Balance December 31, 2016	**$ 2,425**	**$ 254**	**$ 69**	**$ 51**	**$ 695**	**$ -**	**$ 3,494**
Depreciation	1,513	67	23	20	181	-	1,804
Disposals	(231)	-	-	-	(4)	-	(235)
Balance September 30, 2017	**$ 3,707**	**$ 321**	**$ 92**	**$ 71**	**$ 872**	**$ -**	**$ 5,063**

Net book value	Monitoring equipment	Computer equipment	Office furniture and fixtures	Leasehold improvements	Vehicles	Machinery and equipment	Total
Balance December 31, 2015	**$ 7,903**	**$ 296**	**$ 161**	**$ 52**	**$ 850**	**$ -**	**$ 9,262**
Balance December 31, 2016	**$ 12,033**	**$ 313**	**$ 175**	**$ 95**	**$ 867**	**$ -**	**$ 13,483**
Balance September 30, 2017	**$ 17,281**	**$ 302**	**$ 154**	**$ 106**	**$ 715**	**$ 4**	**$ 18,562**

(Tabular dollar amounts expressed in thousands of U.S. Dollars, except per share amounts)

5. Long-term debt and finance leases

	At September 30, 2017	At December 31, 2016
Long-term debt [a]	$ -	$ 458
Finance lease obligations [b]	5,630	6,032
Total debt	5,630	6,490
Less:		
Current portion of long-term debt	-	(458)
Current portion of finance lease obligations	(4,480)	(3,401)
Total Current Portion of long-term debt	(4,480)	(3,859)
Net Long-term debt	$ 1,150	$ 2,631

(a) Loan bearing interest at fixed rate of 4.25%, payable in blended monthly payments, secured by equipment, matured April 2017.

(b) Various finance leases for equipment with an implied interest rate at fixed rates between 0.0% - 12.85%, secured by equipment, due between 2017 and 2020.

6. Share capital

The Company considers its capital to be shareholders' equity, which is comprised of members'/shareholders' equity and retained earnings, in the amount of $21,082,000 as at September 30, 2017 and $12,880,000 as at December 31, 2016.

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily raised through equity capital by way of private placements.

7. Commitments

Leases

Leases under which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lesser of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. The associated lease liability is drawn down over the life of the lease by allocating a portion of each lease payment to the liability with the remainder being recognized as finance charges.

Leases that do not transfer the risks and rewards of ownership to the Company are treated as operating leases and are expensed as incurred.

(Tabular dollar amounts expressed in thousands of U.S. Dollars, except per share amounts)

(a) Operating leases

The Company leases certain facilities under the terms of non-cancelable operating leases. Future payments pursuant to these commitments are as follows:

Less than 1 year	$	303
Between 1 and 4 years		933
Five years or more		684
Total	$	1,920

8. Selling, general and administrative

	Three months ended September 30,				Nine months ended September 30,			
		2017		2016		2017		2016
Payroll & employee benefits (Note 10)	$	4,324	$	3,446	$	12,527	$	10,601
Bad debt expense		1,231		1,099		3,726		3,075
Facilities related expenses		270		234		816		747
Travel		254		116		770		438
Professional fees		185		170		572		465
Office Expense		193		108		572		449
Auto expense		167		130		513		484
Other		261		152		683		1,046
Total	$	6,885	$	5,455	$	20,179	$	17,305

9. Earnings (loss) per share

Income (loss) per common share is calculated using the weighted average number of common shares outstanding during the period. Diluted income (loss) per common share is the same as basic income (loss) per share. Earnings (loss) per share is based on the combined earnings (loss) for the period divided by the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share is computed in accordance with the treasury stock method and based on the weighted average number of shares and dilutive share equivalents.

The following reflects the earnings (loss) and share data used in the basic and diluted earnings (loss) per share computations:

	Three months ended September 30,				Nine months ended September 30,			
		2017		2016		2017		2016
Net income (loss) attributable to shareholders	$	4,018	$	388	$	8,202	$	(1,760)
Basic weighted average number of shares		6,000		6,000		6,000		6,000
Basic and diluted income (loss) per share	$	0.67	$	0.06	$	1.37	$	(0.29)

(Tabular dollar amounts expressed in thousands of U.S. Dollars, except per share amounts)

10. Related party transactions and balances

On August 1, 2015, the Company entered a ten-year triple net lease agreement for office space with a rental company that is affiliated with the Company's CEO and President, Casey Hoyt and Mike Moore. Rental payments under this lease agreement are US $18,000 per month, plus taxes, utilities and maintenance.

In addition to the above agreements, the Company paid key management personnel the following:

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
Salaries and benefits	$ 511	$ 347	$ 1,479	$ 947

As of September 30, 2017 the Company had an accounts payable – related party balance of $2,055,000. This balance represents intercompany balances between related sister companies accumulated through activities in the normal course of business.

11. Subsequent Events

Subsequent to September 30, 2017, the Company entered into a finance lease agreement with a third party and as a result $1,216,000 of accounts payable were converted to a short-term finance lease payable.