Viemed Healthcare, Inc.

Consolidated Financial Statements

For the years ended
December 31, 2017 and 2016

(Expressed in U.S. dollars)

TABLE OF CONTENTS

Independent Auditors' Report

To the Shareholders of Viemed Healthcare, Inc.:

We have audited the accompanying consolidated financial statements of Viemed Healthcare, Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of income and other comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Viemed Healthcare, Inc. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

Toronto, Ontario
March 8, 2018

Chartered Professional Accountants
Licensed Public Accountants

MNP LLP

VIEMED HEALTHCARE INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of U.S. Dollars)

	Note	As at December 31, 2017	As at December 31, 2016
ASSETS			
Current			
Cash and cash equivalents		$ 5,098	$ 4,339
Accounts receivable	2	9,781	4,793
Inventory	3	1,633	1,638
Prepaid expenses and other assets		489	426
Total current assets		$ 17,001	$ 11,196
Long-term			
Property and equipment, net	4	20,690	13,483
Total long-term assets		$ 20,690	$ 13,483
TOTAL ASSETS		$ 37,691	$ 24,679
LIABILITIES			
Current Liabilities			
Trade payables		$ 3,386	$ 1,883
Accounts payable - related parties		—	2,463
Income taxes payable		142	—
Accrued liabilities		5,082	963
Current portion of finance lease	5	4,381	3,401
Current portion of long-term debt	5	—	458
Warrant conversion liability	7	158	—
Total current liabilities		$ 13,149	$ 9,168
Long-term Liabilities			
Long-term finance lease	5	798	2,631
Total long-term liabilities		$ 798	$ 2,631
TOTAL LIABILITIES		$ 13,947	$ 11,799
SHAREHOLDERS' EQUITY			
Share capital	6, 8	67	67
Contributed surplus		2,688	—
Retained Earnings		20,989	12,813
TOTAL SHAREHOLDERS' EQUITY		$ 23,744	$ 12,880
TOTAL LIABILTIES AND SHAREHOLDERS' EQUITY		$ 37,691	$ 24,679

Commitments (Note 9)

APPROVED ON BEHALF OF THE BOARD:

signed “*Casey Hoyt*” signed “*Nitin Kaushal*”

The accompanying notes are an integral part of these consolidated financial statements

VIEMED HEALTHCARE INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Expressed in thousands of U.S. Dollars, except per share amounts)

	Note	For the years ended December 31, 2017	December 31, 2016
Revenue		$ 46,928	$ 31,356
Cost of revenue	10	12,313	12,497
Gross margin		$ 34,615	$ 18,859
Selling, general and administrative	10	24,561	18,144
Share-based compensation	8, 14	828	—
Depreciation	4	402	332
Loss (gain) on disposal of property and equipment		203	(49)
Loss on warrant conversion liability	7	158	—
Net income before financing expenses and taxes		$ 8,463	$ 432
Financing expenses			
Interest expense	5	272	323
Net income before taxes		$ 8,191	$ 109
Provision for (recovery of) income taxes	11	15	(1,119)
Net income and comprehensive income		$ 8,176	$ 1,228
Net income per share			
Basic	13	$ 0.22	$ 0.03
Diluted	13	$ 0.22	$ 0.03
Weighted average number of common shares outstanding:			
Basic	13	37,909,628	37,909,628
Diluted	13	37,971,921	37,909,628

The accompanying notes are an integral part of these consolidated financial statements

VIEMED HEALTHCARE INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in thousands of U.S. Dollars)

	Number of shares outstanding	Share capital (Note 8)	Contributed surplus (Note 8)	Retained earnings	Total Shareholders' equity
Shareholders' equity, December 31, 2015	**37,909,628**	**$ 67**	**—**	**$ 11,585**	**$ 11,652**
Net Income				1,228	1,228
Shareholders' equity, December 31, 2016	**37,909,628**	**$ 67**	**$ —**	**$ 12,813**	**$ 12,880**
Net Income				8,176	8,176
Share-based Compensation - Options		—	828	—	828
Settlement of intercompany balance from spin-off		—	1,860	—	1,860
Shareholders' equity, December 31, 2017	**37,909,628**	**$ 67**	**$ 2,688**	**$ 20,989**	**$ 23,744**

The accompanying notes are an integral part of these consolidated financial statements

VIEMED HEALTHCARE INC.
CONSOLIDATED STATEMENTS OF CASH FLOW

(Expressed in thousands of U.S. Dollars)

	For the years ended	
	December 31, 2017	December 31, 2016
Cash flows from operating activities		
Net income	$ 8,176	$ 1,228
Adjustments for:		
Depreciation	2,543	1,424
Bad debt expense	5,142	4,375
Share-based compensation	828	—
Loss (gain) on disposal of property and equipment	203	(49)
Net change in working capital		
Increase in accounts receivable	(10,130)	(1,123)
Increase (decrease) in inventory	5	(111)
Increase in trade payables	1,503	1,002
Increase (decrease) in trade payables - related parties	(603)	433
Increase in accrued liabilities	4,277	350
Decrease in income tax payable	142	(1,119)
Increase (decrease) other current assets	(62)	4
Net cash from operating activities	$ 12,024	$ 6,414
Cash flows from investing activities		
Purchase of property and equipment	(4,003)	(1,674)
Proceeds from sale of property and equipment	430	738
Net cash used in investing activities	$ (3,573)	$ (936)
Cash flows from financing activities		
Repayments of finance lease liabilities	(7,234)	(2,846)
Repayments on long-term debt	(458)	(1,441)
Net cash used in financing activities	$ (7,692)	$ (4,287)
Net increase in cash and cash equivalents	759	1,191
Cash and cash equivalents at beginning of year	4,339	3,148
Cash and cash equivalents at end of year	$ 5,098	$ 4,339
Non-cash Transactions:		
Property and equipment financed through finance leases and long-term debt	$ 6,381	$ 4,660
Settlement of intercompany balance from spin-off[1]	$ 1,860	$ —

[1] Effective December 31, 2017, the spin-off date, accounts payable - related parties due to Patient Home Monitoring Corp ("PHM") and its affiliates was forgiven and settled as a capital contribution to Viemed Healthcare, Inc.

The accompanying notes are an integral part of these consolidated financial statements

1. Nature of operations

On December 21, 2017 Viemed Healthcare, Inc. ("the Company") executed Asset and Share Purchase Agreements as well as an Arrangement Agreement (Arrangement) with Patient Home Monitoring Corp. ("PHM") and was spun-out as a separate public company that owns a 100% interest in Home Sleep Delivered, L.L.C ("HSD"). and Sleep Management, L.L.C dba Viemed ("Viemed) through the U.S. holding company Viemed Inc. Prior year financial results include the combined results of Viemed and HSD. Effect the spin-out date, consolidated financial statements include all above referenced entities.

The Company, through its subsidiaries, provides in-home health care solutions to U.S. patients. VieMed offers customers requiring respiratory services and related equipment an appropriate selection of home medical products including non-invasive ventilators, positive airway pressure (“PAP”) machines and oxygen units, as well as the services of experienced respiratory therapists. HSD provides in-home sleep apnea testing, allowing a patient to determine the existence of sleep apnea at home at a fraction of the cost of the traditional sleep lab environment. The Company was incorporated under the Business Corporations Act (British Columbia) on December 14, 2016 . The Company's registered and records office is located at Royal Centre, Suite 1500, 1055 West Georgia Street, Vancouver, British Columbia V6E 4N7 and its corporate office is located at 202 N. Luke Street, Lafayette, Louisiana 70506.

The Company’s shares are traded on the TSX Venture Exchange under the symbol VMD. The stock is also traded on the OTC Market under the symbol VIEMF.

2. Summary of significant accounting policies

(a) *Unreserved statement of compliance*

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 8, 2018.

The consolidated financial statements, which are presented in U.S. dollars, have been prepared under the historical cost convention, as modified by the measurement at fair values of certain financial assets and financial liabilities.

(b) *Reporting currency*

All values are in U.S. dollars ($) unless specifically indicated otherwise. Canadian dollars are indicated as CAD$.

(c) *Functional currency*

Management has exercised judgment in selecting the functional currency of each of the entities that it combines based on the primary economic environment in which the entity operates and in reference to the various indicators including the currency that primarily influences or determines the selling prices of goods and services and the cost of production, including labor, material and other costs and the currency whose competitive forces and regulations mainly determine selling prices. The Company's functional currency was determined to be the U.S. dollar, which was determined using management’s assumption that the primary economic environment which it will derive its revenue and expenses incurred to generate those revenues is the United States.

(d) *Principles of consolidation*

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions have been eliminated. The Company’s consolidated entities, their functional currencies and ownership percentages are as follows:

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

Subsidiary	Functional currency	Ownership
Home Sleep Delivered, LLC	USD	100%
Sleep Management, LLC	USD	100%
Viemed Inc.	USD	100%

(e) *Comparative information*

In order to enhance the presentation of the Consolidated Statements of Income and Comprehensive Income and allow for a user of the financial statements to more readily identify key measures important in the understanding of the business, certain figures have been reclassified to conform to the current year presentation. Previously, depreciation from revenue generating medical equipment was presented within total consolidated depreciation. Additionally, salaries and wages of direct revenue generating personnel was present within total sales, general, and administrative expenses. However, management considers it to be more relevant that these direct costs are presented within cost of revenue. Prior year comparatives have been reclassified to be presented within cost of revenue. The below table illustrates the effect of this reclassification to the Consolidated Statement of Income and Comprehensive Income for the year ended December 31, 2016.

	As originally reported	Reclassifications	As reclassified
Cost of revenue	$ 6,326	$ 6,171	$ 12,497
Sales, general and administrative	$ 23,223	$ (5,079)	$ 18,144
Depreciation	$ 1,424	$ (1,092)	$ 332

(f) *Use of estimates*

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results may differ from those estimates.

The following are the significant estimates that the Company has made in preparing the consolidated financial statements.

a. *Useful lives of property and equipment*

Property and equipment are amortized on a straight-line basis over their estimated useful lives. The Company reviews these estimates on an annual basis, or more frequently if events during the year indicate that a change may be required, with consideration given to technological obsolescence and other relevant business factors. A change in management's estimate could impact depreciation expense and the carrying value of property and equipment.

b. *Allowance for doubtful accounts*

The Company estimates that a certain portion of receivables from customers may not be collected, and maintains an allowance for doubtful accounts. The Company evaluates the net realizable value of accounts receivable as of the Consolidated Statement of Financial Position date. Specifically, the Company considers historical realization data including current and historical cash collections, accounts receivable aging trends, other operating trends and relevant business conditions. Because of continuing changes in the health care industry and third party reimbursement, it is possible that our estimates could change, which could have a material impact on our operations and cash flows. If circumstances related to certain customers change or actual results differ from expectations, the Company's estimate of the recoverability of receivables could fluctuate from that provided for in the consolidated financial statements. A change in estimate could impact bad debt expense and accounts receivable.

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

		December 31, 2017		December 31, 2016
Balance, beginning of year	$	3,069	$	1,108
Increase in provision		5,142		4,375
Amounts written off		(5,151)		(2,414)
Balance, end of year	$	3,060	$	3,069

c. *Provisions*

The Company recognizes provisions when it has a legal or constructive obligation as a result of past events for which it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

d. *Deferred Tax Assets and Liabilities*

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company computes deferred tax assets and liabilities in respect of taxes that are based on taxable profit. Taxable profit is understood to be a net, rather than gross, taxable amount that gives effect to both revenues and expenses. Taxable profit will often differ from accounting profit and management may need to exercise judgment to determine whether some taxes are income taxes (subject to deferred tax accounting) or operating expenses.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the differences are expected to be recovered or settled. The determination of the ability of the Company to utilize tax loss carry forwards to offset deferred tax liabilities requires management to exercise judgment and make certain assumptions about the future performance of the Company. Management is required to assess whether it is "probable" that the Company will benefit from these prior losses and other deferred tax assets. Changes in economic conditions, commodity prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

(g) *Significant accounting judgments*

The following are the critical judgments, apart from those involving estimations, that have been made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

a. *Segment reporting*

IFRS 8 requires operating segments to be determined based on the Company's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Company's Chief Executive Officer as he is primarily responsible for the allocation of resources and the assessment of performance.

The CODM uses operating profit, as reviewed at monthly business review meetings, as the key measure of the Company's results as it reflects the Company's underlying performance for the period under evaluation. Operating profit is defined as profit on operations before interest, taxes, stock-based compensation, amortization of intangibles and impairment expenses.

The CODM's primary focus for review and resource allocation is the Company as a whole and not any component part of the business. All revenue streams for the business are managed centrally by functional teams (Demand, Supply, Procurement and Finance) that have responsibility for the whole of the Company's product portfolio. Although some discrete financial information is available to provide insight to the management team of the key performance drivers, the product group profit is not part of the CODM's review. Having considered these factors, management has judged that the Company comprises one operating segment under IFRS 8. As such, the disclosures required under IFRS 8 for the consolidated financial statements are shown on the face of the consolidated statement of income and comprehensive income and consolidated statement of financial position.

b. *Valuation of derivative instruments*

Management has exercised judgment in the determination of the fair value of the derivative instruments. Estimating fair value for the derivatives requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the instrument. This estimate also requires the judgment in the determination of the most appropriate inputs to the valuation model including the expected life of the option or warrant, volatility and dividend yield and making other assumptions about them.

(h) *Financial Instruments*

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

a. Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired.

Fair value through profit or loss (“FVTPL”) - This category is comprised of derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in profit or loss. The Company classifies its cash and cash equivalents as fair value through profit and loss.

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Loans and receivables - loans and receivables are recognized at the date the Company becomes party to the contract and are recognized at fair value. Subsequent to the recognition date, loans and receivables are measured at amortized costs. The Company classifies its accounts receivable as receivables.

b. Financial liabilities

The Company classifies financial liabilities as either financial liabilities ‘at FVTPL’ or ‘other financial liabilities’. The financial liabilities, consisting of trade payables, accounts payable - related parties, accrued liabilities, loans payable, conversion liability warrants, and obligations under finance leases, are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, recognizing interest expense on an effective yield basis.

Warrants with an exercise price denominated in a foreign currency and conversion features denominated in a foreign currency are recorded at fair value and classified as a derivative financial liability. The liability is initially measured at estimated fair value with subsequent changes in fair value recorded as a gain or loss in the consolidated statement of income and comprehensive income. As the warrants are exercised or debt converted, the value of the recorded liability will be included in share capital along with the proceeds from the exercise. If these warrants expire, the related liability is reversed through the consolidated statement of income and comprehensive income.

(i) Impairment of assets

a. Financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had such a negative effect on the estimated future cash flows of the asset that the carrying value of the asset can no longer be recovered.

If a financial asset carried at amortized cost is impaired, the impairment is measured as the difference between the carrying amount, or amortized cost of the asset, and the present value of the future cash flows discounted at the instrument’s original effective interest rate. The impairment is recognized in earnings or loss. An impairment loss may be reversed if the reversal can be objectively related to an event occurring after the impairment loss recognition. For financial assets measured at amortized cost, the reversal is recognized in earnings or loss.

Individually significant financial assets are tested for impairment on an individual basis. Remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

b. Impairment of non-financial assets

Property and equipment is also tested for impairment at each reporting period if impairment indicators exist. Property and equipment impairment is assessed at the Cash Generating Unit ("CGU") level.

When the carrying amount of CGU or group of CGUs exceeds their recoverable amount, the CGU or group of CGUs is considered impaired and written down to its recoverable amount. Recoverable amount is the higher of (i) the fair value less costs to sell and (ii) the value in use.

Fair value less costs to sell is determined as the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from the asset or CGU discounted using a pre-tax discount rate reflecting market assessments of the time value of money and the risks specific to the asset or CGU.
An impairment loss is recognized within earnings or loss. A previously recognized impairment loss may be reversed if the assumptions used to determine the recoverable amount have changed since the impairment loss recognition. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and depletion, if no impairment loss had been recognized.

(j) *Cash and cash equivalents*

Cash and cash equivalents consist of cash and temporary investments that are redeemable on demand or with an original maturity of three months or less that are readily convertible to known amounts of cash that are subject to insignificant risk or change.

(k) *Accounts receivable*

Accounts receivable are recorded at the time revenue is recognized. The amount billed is the amount the Company believes is the allowable charge as determined by the payer (i.e. MediCare, insurance companies, etc.). These billings can be challenged by the payer. These modified amounts will be the total payment for the services, unless the Company decides to appeal the determination. The historical rate of modifications and appeals results has been used to determine the allowance for bad debts.

Accounts receivable are regularly reviewed for collectability and an allowance is credited to cover the estimated bad debts and billing modifications. The accounts receivable are presented on the Consolidated Statements of Financial Position net of the allowance for doubtful accounts. It is possible that the estimates of the allowance for doubtful accounts could change, which could have a material impact on our operations and cash flows.

The Company writes off receivables when the likelihood for collection is remote, and when the Company believes collection efforts have been fully exhausted and it does not intend to devote additional resources in attempting to collect. The write-offs are charged against the allowance for doubtful accounts.

(l) *Inventory*

Inventory consists primarily of respiratory equipment and supplies, serialized and non-serialized. The Company's serialized inventory is either rented out by a patient on a monthly basis or purchased. If the equipment is rented by the patient, the cost of such equipment is transferred to property and equipment, where the cost is depreciated over the life of the asset. If the equipment is purchased, the cost of such equipment is expensed through cost of revenue. The Company values inventory at the lower of cost and net realizable value. The inventory value is determined using the first-in first-out method. Obsolete and unserviceable inventories are valued at estimated net realizable value.

(m) ***Property and equipment***

Property and equipment is stated at cost less accumulated depreciation. Major renewals and improvements are charged to the property accounts, while maintenance, and repairs, which do not extend the useful life of the respective assets, are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives of the assets are as follows:

Description	Estimated Useful Lives
Medical Equipment	2 - 10 Years
Computer Equipment	5 Years
Office Furniture & Fixtures	5-10 Years
Leasehold Improvements	Life of Lease
Vehicles	5 Years

Depreciation of monitoring equipment commences once it has been deployed to a patient's address and put in use. Property and equipment and other non-current assets with definite useful lives are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

(n) ***Revenue recognition***

Revenue from a customer consists of any combination of the sale and rental of medical equipment and / or patient monitoring services. Revenues are billed to and collections received from Medicare, third-party insurers, co-insurance and patient-pay. Revenue is recognized at the time services are provided net of contractual adjustments based on an evaluation of expected collections resulting from the analysis of current and past due accounts, past collection experience in relation to amounts billed and other relevant information. Contractual adjustments result from the differences between the rates charged for services and reimbursements by government-sponsored healthcare programs and insurance companies for such services. Interest revenue is recognized as earned.

(o) ***Income taxes***

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. The Company's income tax provisions reflect management's interpretation of country and state tax laws. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and may remain uncertain for several years after their occurrence. The Company recognizes assets and liabilities for taxation when it is probable that the Company will receive refunds or pay taxes to the relevant tax authority. Where the final determination of tax assets and liabilities is different from the amounts that were initially recorded, such differences will impact the current and deferred income taxes provision in the period in which such determination is made. Changes in tax law or changes in the way tax law is interpreted may also impact the Company's effective tax rate as well as its business and operations.

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income. Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying value of assets and liabilities and their respective income tax bases. Deferred income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled. The calculation of current and deferred income taxes requires management to make estimates and assumptions and to exercise a certain amount of judgment concerning the carrying value of assets and liabilities. The current and deferred income tax assets and liabilities are also impacted by expectations about future operating results and the timing of reversal of temporary differences as well as possible audits of tax filings by regulatory agencies. Changes or differences in these estimates or assumptions may result in changes to the current and deferred tax assets and liabilities on the consolidated statements of financial position and a charge to or recovery of income tax expense.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates. Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

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

See Note 11 for details on income taxes recognized.

(p) *Recently issued accounting pronouncements*

Certain pronouncements were issued by the IASB or the International Financial Reporting Interpretation Committee (“IFRIC”). The following have not yet been adopted and are being evaluated to determine their impact on the Company. The Company intends to adopt them, if applicable, only on their effective date.

IFRS 9, Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. Based on the assessment performed, the Company does not expect a significant impact on its consolidated financial statements.

In January 2016, the IASB issued IFRS 16, Leases, to set out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease agreement. The standard supersedes IAS 17, Leases, and other lease related interpretations, eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. The standard will be effective on January 1, 2019 for the Company with earlier application permitted. When the Company is the lessee, it is expected that the application of IFRS 16 will result in statement of financial position recognition of most of its lease agreements that are currently considered operating leases, which are primarily for the rental of premises. The Company is undertaking an assessment of the exact impact from the adoption; based on the preliminary assessment, however, the Company expects a decrease of its property costs and an increase of its finance costs and depreciation resulting from the change in the recognition, measurement and presentation of rental expenses

IFRS 15 was issued by IASB in May 2014 and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. Based on the assessment performed, the Company does not expect a significant impact from the adoption of this standard on its consolidated financial statements.

3. Inventory

	As at December 31, 2017	As at December 31, 2016
Serialized	$ 883	$ 1,018
Non-serialized	750	620
Total inventory	$ 1,633	$ 1,638

	For the years ended December 31, 2017	For the years ended December 31, 2016
Inventory Expensed	$ 2,576	$ 3,200

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

4. Property and equipment

Cost		Medical equipment		Computer equipment		Office furniture and fixtures		Leasehold improvements		Vehicles		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		10,295		74		2		31		125		10,527
Disposals		(1,070)		(1)		—		—		(14)		(1,085)
Balance December 31, 2017	**$**	**23,683**	**$**	**640**	**$**	**246**	**$**	**177**	**$**	**1,673**	**$**	**26,419**

Accumulated depreciation		Medical equipment		Computer equipment		Office furniture and fixtures		Leasehold improvements		Vehicles		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		2,141		90		31		27		254		2,543
Disposals		(304)		—		—		—		(4)		(308)
Balance December 31, 2017	**$**	**4,262**	**$**	**344**	**$**	**100**	**$**	**78**	**$**	**945**	**$**	**5,729**

Net Book value		Medical equipment		Computer equipment		Office furniture and fixtures		Leasehold improvements		Vehicles		Total
Balance December 31, 2016	**$**	**12,033**	**$**	**313**	**$**	**175**	**$**	**95**	**$**	**867**	**$**	**13,483**
Balance December 31, 2017	**$**	**19,421**	**$**	**296**	**$**	**146**	**$**	**99**	**$**	**728**	**$**	**20,690**

Included in medical equipment above is equipment acquired under finance lease obligations whose cost and accumulated depreciation at December 31, 2017 total $9.4 million and $1.2 million, respectively. At December 31, 2016, cost and accumulated depreciation on equipment acquired under finance lease obligations was $10.6 million and $1.1 million, respectively.

5. Long-term debt and finance leases

		December 31, 2017		December 31, 2016
Long-term debt [a]	—		$	458
Finance lease obligations [b]		5,179		6,032
Total debt	$	5,179	$	6,490
Less:				
Current portion of long-term debt	—			(458)
Current portion of finance lease obligations		(4,381)		(3,401)
Total current portion of long-term debt	**$**	**(4,381)**	**$**	**(3,859)**
Net long-term debt	**$**	**798**	**$**	**2,631**

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

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

(b) Various finance leases for equipment with an implied interest rate at fixed rates between 0% - 12.85%, secured by equipment, due between 2017 and 2020.

Minimum payments and interest for finance lease obligations required over the next five years are as follows:

	Principal Payments	Interest Payments
Less than one year (current portion)	$ 4,381	$ 123
Between one and two years	684	32
Between two and five years	114	6
Total	**$ 5,179**	**$ 161**

Interest expense related to these obligations for the year ended December 31, 2017 amounted to $272,000 (December 31, 2016 - $323,000).

6. Capital Management

The Company considers its capital to be shareholders' equity, which is comprised of capital stock, contributed surplus, and retained earnings, which was $23,744,000 at December 31, 2017 (December 31, 2016 - $12,880,000) along with the debt which totaled $5,179,000 at December 31, 2017 (December 31, 2016 - $6,490,000). The Company's objective when managing its capital is to seek continuous improvement in the return to its shareholders while maintaining a low to moderate tolerance level for risk. The Company meets its capital needs through a variety of finance leasing and bank debt. Funds are primarily secured through internally generated cash from operations. There have been no changes to management's approach to managing its capital during the years ended December 31, 2016 and 2017.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

7. Financial instruments

Fair value hierarchy

The Company classifies and discloses fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The three levels of the fair value hierarchy are:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets and liabilities;
Level 2 - valuation techniques based on inputs other than quoted prices included in 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 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's cash and cash equivalents are measured using level 1 inputs.

Pursuant to the Arrangement with PHM effective December 21, 2017, PHM common share purchase warrant holders each received one tenth (1/10) of one warrant to purchase one Viemed share. The warrants conversion feature is denominated in Canadian dollars which is different from the functional currency of the Company (US dollars). The conversion feature is treated, per IFRS Fair Value Measurement requirements, as a derivative financial liability and the fair value movement during the period is recognized in the consolidated statement of income and comprehensive income. While the gain resulting from fair value measurement has no effect on (1) the cash position of the Company; (2) management's analysis and decision making in execution and strategy of the business; (3) the financial health of the Company; (4) the future potential for revenue and profit growth and ability to finance that growth, IFRS rules dictate that these items be included in the year-end financial statements. The change in the value of warrants has been recorded as a loss on derivative financial liability in the Consolidated Statements of Income and Comprehensive Income.

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

The fair value of the warrants was calculated using the Black-Scholes option pricing model with the following assumptions

Risk-free interest rate	1.66%
Expected volatility	87.66% - 93.08%
Expected life of warrants	0.33 - 1.67 years
Expected dividend yield	Nil

There were 2,601,000 warrants issued during the year ended December 31, 2017.

Conversion Liability Warrants		
Balance December 31, 2016	$	—
Warrants issued		158
Balance December 31, 2017	$	158

8. Share Capital

(a) ***Authorized share capital***

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series. The preferred shares issuable in series will have the rights, privileges, restrictions, and conditions assigned to the particular series upon the Board of Directors approving their issuance.

(b) ***Issued share capital***

The Company has only one class of stock outstanding, common share. At December 31, 2017, there were 37,909,628 common shares outstanding. Common shares are classified as equity.

Pursuant to the Arrangement with PHM effective December 21, 2017, PHM option holders. who are to remain employees of Viemed, each received one tenth (1/10) of one option to purchase one Viemed share, and PHM common share purchase warrant holders each received one tenth (1/10) of one warrant to purchase one Viemed share.

The effects of these issuances are illustrated below:

(c) ***Warrants outstanding and exercisable***

Year issued	Date of expiry	Type	Number of warrants (000's)		Weighted average exercise price (CAD$)
2017	August 27, 2019	Warrant	179	$	2.60
2017	May 4, 2018	Broker Warrant	180	$	8.67
2017	May 4, 2018	Warrant	2,242	$	10.40
Total			**2,601**	**$**	**9.74**

Warrants Continuity Schedule

	Number of warrants (000's)		Weighted average exercise price (CAD$)
Balance December 31, 2016	—	**$**	**—**
Issued	2,601	$	9.74
Balance December 31, 2017	**2,601**	**$**	**9.74**

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

(d) *Options*

The Company has a stock option plan, which it uses for grants to directors, officers, employees and consultants. Options granted under the plan are non-assignable and may be granted for a term not exceeding ten years. The Company accounts for stock options using the fair value method as prescribed by IFRS 2. Under this method, the fair value of stock options at the date of grant is amortized over the vesting period and the offsetting credit is recorded as an increase in contributed surplus. Stock options generally either vest immediately or annually over a three-year period. A summary of stock options is provided below:

	Number of options (000's)	Weighted average exercise price (CAD$)
Balance December 31, 2016	**—**	**$ —**
Issued	878	$ 4.31
Balance December 31, 2017	**878**	**$ 4.31**

At December 31, 2017, the Company had 674,000 vested, exercisable stock options outstanding.

(e) *Stock-based compensation*

The Company accounts for stock-based compensation, including stock options, using the fair value method as prescribed by IFRS 2. Under this method, the fair value of stock options at the date of grant is amortized over the vesting period and the offsetting credit is recorded as an increase in contributed surplus.

For the year ended December 31, 2017, the Company recorded stock-based compensation expense of $828,000 (2016 - $0).

The fair value of the stock options has been charged to the statement of loss and comprehensive loss and credited to contributed surplus over the proper vesting period, using the Black-Scholes option pricing model calculated using the following assumptions:

	Year ended December 31, 2017
Share price	$ 2.40
Risk-free interest rate	1.55%
Expected volatility	92.90%
Forfeiture rate	5.00%
Expected life of options	0.3 - 1.4 Years
Expected dividend yield	Nil
Calculated fair value of options	$ 865,535

9. 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.

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

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

(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:

		As at December 31, 2017
Less than 1 year	$	325
Between 1 and 4 years		983
Five years or more		630
Total	**$**	**1,938**

10. Expenses by nature

		For the year ended		
		December 31, 2017		December 31, 2016
Included in cost of revenue:				
Inventory expenses (Note 3)	$	2,576	$	3,200
Operating leases		1,161		2,833
Depreciation of medical equipment (Note 4)		2,141		1,092
Direct employee salary and benefits		6,168		5,253
Other		267		119
Total cost of revenue	**$**	**12,313**	**$**	**12,497**
Included in selling, general, and administrative:				
Employee salary and benefits (Note 14)		14,115		8,544
Bad debt expense		5,142		4,375
Facilities		891		956
Travel, Meals, & Entertainment		1,056		590
Corporate Allocations		—		486
Professional Fees		426		472
Insurance		240		287
Legal		528		244
Other		2,163		2,190
Total selling, general, and administrative	**$**	**24,561**	**$**	**18,144**

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

11. Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes are measured using the current or substantively enacted tax rates expected to apply when the differences reverse. A deferred tax asset is recognized to the extent that the recoverability of deferred income tax assets is considered probable.

Deferred tax

The following table reconciles income taxes calculated at combined U.S. federal and state tax rates with the income tax expense (benefit) in the financial statements:

	Year ended December 31, 2017	Year ended December 31, 2016
Net income before income taxes [a]	$ 8,191	$ 109
Statutory income tax rate	40%	40%
Computed provision for (recovery of) income taxes	$ 3,276	$ 44
Permanent differences	530	44
True up re prior years	(2,114)	—
Tax rate changes	8,301	—
Tax recovered on losses carried back	—	(1,119)
Changes in deferred tax assets not recognized	(9,978)	(88)
Provision for (recovery of) income taxes	$ 15	$ (1,119)

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Deferred Income Taxes

The Company's deferred income tax assets (liabilities) are comprised of the following:

	Year ended December 31, 2017	Year ended December 31, 2016
Goodwill [a]	$ 2,475	$ 2,700
Property and equipment	(2,475)	(2,700)
Net deferred tax asset (liability)	$ —	$ —

[a] The Company elected to report the acquired assets at fair value at the time of the Company's acquisition by PHM in 2015, and thus carries a goodwill asset for tax purposes subsequent to the transaction. The goodwill is amortized over 15 years for tax purposes.

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

Unrecognized Deferred Tax Assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	Year ended December 31, 2017	Year ended December 31, 2016
Net operating losses	$ 5,022	$ 3,971
Goodwill	50,145	53,377
Allowance for doubtful accounts	3,060	2,768
Accrued compensation and other	151	111
UNICAP	490	—
481(a) adjustment	29	—

The Company has US loss carryforwards that expire as noted in the table below. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company has US loss carryforwards with the following expiry date. These net operating losses are subject to limitation on use:

	Year ended December 31, 2017
Expiring in 2034	$ 2,513
Expiring in 2037	2,509

12. Fair value and financial risk factors

Risk management

In the normal course of business, the Company is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

Fair values

The Company has designated its cash and cash equivalents as FVTPL which are measured at fair value. Fair value of cash and cash equivalents is determined based on transaction value and is categorized as a Level One measurement.

- Level One - includes quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level Two - includes inputs that are observable other than quoted prices included in Level One.
- Level Three - includes inputs that are not based on observable market data.

As at December 31, 2016 and 2017 both the carrying and fair value amounts of the Company's cash and cash equivalents, accounts receivable, accounts receivable - related parties, trade payables, accounts payable - related parties, accrued liabilities, and the current portion of finance leases and current portion of long-term debt are approximately equivalent due to their short-term nature.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk are primarily cash and accounts receivable. Each subsidiary places its cash with one major financial institution. At times, the cash in the financial institution is temporarily in excess of the amount insured by the Federal Deposit Insurance Corporation. Substantially all accounts receivable are due under fee-for-service contracts from third party payors, such as insurance companies and government-sponsored healthcare programs, directly from patients or for rebates due from manufacturers. Receivables generally are collected within industry norms for third-party payors and from manufacturers. The Company continuously monitors collections from its clients and maintains an allowance for bad debts based upon any specific payor collection issues that are identified and historical experience.

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

As of December 31, 2016 and 2017 no one customer represented more than 10% of outstanding accounts receivable. The Company does have receivables at December 31, 2017 from Medicare and Medicaid, representing 74% and 10%, respectively, of total outstanding receivables. As these receivables are both from government programs, there is very little credit risk associated with these balances. The Centers for Medicare and Medicaid Services ("CMS") routinely audits insurance payments in the normal course of business. During such audits, claims processed to be paid may be held for payment pending completion of the audit. At December 31, 2017 the Company had approximately $4.5 million in outstanding accounts receivable related to payments held under CMS audit. The Company expects to receive payment for substantially all of these claims upon the conclusion of their audit program.

Accounts receivable aging for each reporting period is as follows:

Cost	Current	30-60	60-90	Over 90	Total accounts receivable	Allowance for doubtful accounts
December 31, 2016	$ 2,312	$ 651	$ 518	$ 4,381	$ 7,862	$ 3,069
December 31, 2017	$ 4,531	$ 2,761	$ 2,750	$ 2,799	$ 12,841	$ 3,060

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach in managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when due by continuously monitoring actual and budgeted cash flows, and monitoring financial market conditions for signs of weakness.

As of December 31, 2017, the Company faced no material liquidity risk and is able to meet all of its current financial obligations as they become due and payable. The Company had $13,149,000 of current liabilities (December 31, 2016 - $9,168,000) that are due within one year but had $17,001,000 of current assets (December 31, 2016 - $11,196,000) in addition to positive cash flows expected to be generated during 2018.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents held with registered US financial institutions. The Company considers this risk to be immaterial. The interest on the long-term debt and finance leases are not subject to cash flow interest rate risk as these instruments bear interest at fixed rates.

13. Earnings per share

Income per common share is calculated using the combined earnings for the year divided by the weighted average number of shares outstanding during the year. Diluted income per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common share by assuming the proceeds received from the exercise of stock options and warrants are used to purchase common shares at the prevailing market rate.

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

	December 31, 2017	December 31, 2016
Net income attributable to members / shareholders	$ 8,176	$ 1,228
Basic number of shares	37,909,628	37,909,628
Basic earnings per share	$ 0.22	$ 0.03
Diluted weighted average number of shares	37,971,921	37,909,628
Diluted earnings per share	$ 0.22	$ 0.03

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

14. 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. The expense has been recorded as general and administrative expenses.

Key management personnel are comprised of the Company's directors and executive officers. Including the above agreements, the Company paid key management personnel the following:

	For the year ended	
	December 31, 2017	December 31, 2016
Salaries and Benefits	$ 3,481	$ 1,012
Share-based Compensation	143	—
Rent	238	292
Total	$ 3,862	$ 1,304

In accordance with the Arrangement Agreement, intercompany balances with a net book value of $1,860,000 between the Company and PHM and its affiliates were terminated and extinguished and treated as capital contributions.

15. Subsequent Events

Conversion of Accounts Payable into Short-term Finance Lease

Subsequent to December 31, 2017, the Company entered into a finance lease agreement with a third party and as a result $1,920,000 of accounts payable was converted to a short-term finance lease payable.

New Commercial Business Loan Agreement

Subsequent to December 31, 2017, the Company entered into a two year commercial business loan agreement for term loans and lines of credit for up to $5,000,000. This agreement with Whitney Bank, a Mississippi state chartered bank, will carry an interest rate that is based on one month ICE libor plus 3.00% per annum from the date of advance until paid. Any amounts advanced will be secured by substantially all of the Company's assets. The Company currently has no immediate plans to draw on this facility.