Viemed Healthcare, Inc.

Condensed Consolidated Interim Financial Statements

2019 First Quarter

Three months ended
March 31, 2019 and 2018
(UNAUDITED)

(Expressed in U.S. dollars)

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VIEMED HEALTHCARE, INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of U.S. Dollars)
(Unaudited)

	Note	As at March 31, 2019	As at December 31, 2018
ASSETS			
Current			
Cash and cash equivalents		$ 7,410	$ 10,413
Accounts receivable	2,11	11,666	8,839
Inventory	3	3,615	2,887
Prepaid expenses and other assets		922	824
Total current assets		$ 23,613	$ 22,963
Long-term			
Property and equipment	4	34,970	30,562
Total long-term assets		$ 34,970	$ 30,562
TOTAL ASSETS		$ 58,583	$ 53,525
LIABILITIES			
Current liabilities			
Trade payables		$ 6,388	$ 5,884
Income taxes payable		148	152
Accrued liabilities	9	5,850	7,551
Current portion of lease liabilities	6	5,966	3,031
Warrant conversion liability	8	532	363
Total current liabilities		$ 18,884	$ 16,981
Long-term liabilities			
Long-term accrued liabilities	9	1,962	1,117
Long-term lease liabilities	6	1,188	394
Total long-term liabilities		$ 3,150	$ 1,511
TOTAL LIABILITIES		$ 22,034	$ 18,492
SHAREHOLDERS' EQUITY			
Share capital	7, 9	2,255	71
Contributed surplus		4,068	5,390
Retained earnings		30,226	29,572
TOTAL SHAREHOLDERS' EQUITY		$ 36,549	$ 35,033
TOTAL LIABILTIES AND SHAREHOLDERS' EQUITY		$ 58,583	$ 53,525

Subsequent events (Note 14)

APPROVED ON BEHALF OF THE BOARD:

signed "*Casey Hoyt*"

signed "*Nitin Kaushal*"

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

VIEMED HEALTHCARE, INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

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

	Note	Three Months Ended March 31, 2019	2018
Revenue		$ 20,443	$ 14,111
Cost of revenue	3, 10	5,041	3,559
Gross margin		$ 15,402	$ 10,552
Selling, general and administrative	10	11,487	7,289
Research and development	2	234	—
Stock-based compensation	9, 13	880	561
Depreciation	4	234	206
Loss on disposal of property and equipment		56	36
Loss on warrant conversion liability	8	169	72
Other expense		24	—
Net income before financing expenses and taxes		$ 2,318	$ 2,388
Financing expenses			
Interest expense, net of interest income		26	47
Net income before taxes		2,292	2,341
Provision for income taxes		138	—
Net income and comprehensive income		$ 2,154	$ 2,341
Net income per share			
Basic	12	$ 0.06	$ 0.06
Diluted	12	$ 0.05	$ 0.06
Weighted average number of common shares outstanding:			
Basic	12	37,827,058	37,909,628
Diluted	12	39,449,123	38,084,846

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

VIEMED HEALTHCARE, INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in thousands of U.S. Dollars, except shares outstanding)
(Unaudited)

	Number of shares outstanding	Share capital (Note 8)	Contributed surplus (Note 8)	Retained earnings	Total Shareholders' equity
Shareholders' equity, December 31, 2017	**37,909,628**	**$ 67**	**$ 2,688**	**$ 20,989**	**$ 23,744**
Stock-based compensation - options & restricted stock units			561		561
Net Income				2,341	2,341
Shareholders' equity, March 31, 2018	**37,909,628**	**$ 67**	**$ 3,249**	**$ 23,330**	**$ 26,646**
Shareholders' equity, December 31, 2018	**37,500,815**	**$ 71**	**$ 5,390**	**$ 29,572**	**$ 35,033**
Stock-based compensation - options			578		578
Stock-based compensation - restricted stock units			302		302
Options exercised	2,418	4			4
Shares issued for vesting of restricted stock units	539,965	2,202	(2,202)		—
Shares repurchased and canceled under the Normal Course Issuer Bid	(365,100)	(22)		(1,500)	(1,522)
Net Income				2,154	2,154
Shareholders' equity, March 31, 2019	**37,678,098**	**$ 2,255**	**$ 4,068**	**$ 30,226**	**$ 36,549**

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

VIEMED HEALTHCARE, INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Expressed in thousands of U.S. Dollars)
(Unaudited)

	Note	Three Months Ended March 31, 2019	2018
Cash flows from operating activities			
Net income		$ 2,154	$ 2,341
Adjustments for:			
Depreciation	4	1,400	741
Bad debt expense	2	2,125	1,532
Share-based compensation	9	880	561
Change in fair value of warrant conversion liability		169	—
Loss on disposal of property and equipment		56	36
Net change in working capital			
Increase in accounts receivable		(4,952)	(2,438)
Increase in inventory		(728)	(326)
Increase (decrease) in trade payables		504	(606)
Decrease in accrued liabilities		(856)	(764)
Decrease in income tax payable		(4)	(32)
Increase other current assets		(98)	(71)
Net cash from operating activities		$ 650	$ 974
Cash flows from investing activities			
Purchase of property and equipment		(116)	(46)
Proceeds from sale of property and equipment		24	117
Net cash from (used in) investing activities		$ (92)	$ 71
Cash flows used in financing activities			
Proceeds from exercise of options		4	—
Shares repurchased and canceled under the Normal Course Issuer Bid		(1,522)	—
Repayments of lease liabilities		(2,043)	(1,509)
Net cash used in financing activities		$ (3,561)	$ (1,509)
Net decrease in cash and cash equivalents		(3,003)	(464)
Cash and cash equivalents at beginning of period		10,413	5,098
Cash and cash equivalents at end of period		$ 7,410	$ 4,634
Supplemental disclosure of cash flow information			
Cash paid for income taxes, net of refunds received		$ 143	$ 32
Supplemental disclosure of non-cash transactions			
Property and equipment financed through leases and long-term debt		$ 5,772	$ 2,884

The accompanying notes are an integral part of these unaudited condensed consolidated interim 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 Protech Home Medical Corp. ("PHM") (formerly Patient Home Monitoring Corp.) 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. Effective the spin-out date, the 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 Suite 2800, Park Place, 666 Burrard Street, Vancouver, British Columbia, V6C 2Z7 and its corporate office is located at 202 N. Luke Street, Lafayette, Louisiana 70506.

The Company's shares are traded on the Toronto Stock 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 unaudited condensed consolidated 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 consolidated interim financial statements do not include all the disclosures required in annual consolidated financial statements, and should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2018 and 2017.

Except as noted below, the Company has followed the same basis of presentation, accounting policies and method of computation for these condensed consolidated interim financial statements as disclosed in the annual audited consolidated financial statements for the years ended December 31, 2018 and 2017. The unaudited condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on May 6, 2019.

(b) *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.

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

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.

	For the three months ended March 31, 2019	For the three months ended March 31, 2018
Balance, beginning of period	$ 4,266	$ 3,060
Increase in provision	2,125	1,532
Amounts written off	(502)	(1,424)
Balance, end of period	$ 5,889	$ 3,168

(c) *Changes in significant accounting policies*

The Company adopted IFRS 16 Leases on January 1, 2019, which introduces a new approach to lease accounting. The Company adopted the standard using the modified retrospective approach, which does not require restatement of prior period financial information, as it recognizes the cumulative impact on the opening balance sheet and applies the standard prospectively. Accordingly, the comparative information in these unaudited interim consolidated financial statements is not restated.

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or modified, on or after January 1, 2019.

Effective January 1, 2019, the IFRS 16 transition date, the Company elected to use the following practical expedients under the modified retrospective transition approach:

– Leases with lease terms of less than twelve months (short-term leases) and leases of low-value assets (less than $5,000 U.S. dollars) (low-value leases) that have been identified at transition, were not recognized in the consolidated balance sheet;

– Right-of-use assets on transition were measured at the amount equal to the lease liabilities at transition, adjusted by the amount of any prepaid or accrued lease payments;

– For certain leases having associated initial direct costs, the Company, at initial measurement on transition, excluded these directs costs from the measurement of the right-of-use assets; and

– Any provision for onerous lease contracts previously recognized at the date of adoption of IFRS 16, has been applied to the associated right-of-use asset recognized upon transition.

Where the Company is a lessee, a right-of-use asset representing the right to use the underlying asset with a corresponding lease liability is recognized when the leased asset becomes available for use by the Company. The right-of-use asset is recognized at cost and is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset and the lease term on a straight-line basis. The cost of the right-of-use asset is based on the following:

– the amount of initial recognition of related lease liability;
– adjusted by any lease payments made on or before inception of the lease;
– increased by any initial direct costs incurred; and
– decreased by lease incentives received and any costs to dismantle the leased asset.

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

The lease term includes consideration of an option to extend or to terminate if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Lease liabilities are initially recognized at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. In the situation where the implicit interest rate in the lease is not readily determined, the Company uses judgment to estimate the incremental borrowing rate for discounting the lease payments. The Company's incremental borrowing rate generally reflects the interest rate that the Company would have to pay to borrow a similar amount at a similar term and with a similar security. The Company estimates the lease term by considering the facts and circumstances that create an economic incentive to exercise an extension or termination option. Certain qualitative and quantitative assumptions are used when evaluating these incentives.

Subsequent to recognition, lease liabilities are measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured when there is a change in future lease payments arising mainly from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, renewal or termination option. The payments related to short-term leases and low-value leases are recognized and included within selling, general and administrative costs over the lease term in the unaudited interim consolidated statements of income.

The Company's unaudited interim consolidated financial statements were not impacted by the adoption of IFRS 16 Leases in relation to lessor accounting. Lessors will continue with the dual classification model for recognized leases with the resultant accounting remaining unchanged from IAS 17 Leases.

On January 1, 2019 upon adoption of IFRS 16, the Company reclassified the carrying value of finance leases totaling $7.95 million as right-of-use assets. The Company also recognized $1.37 million of right-of-use assets and $1.37 million of lease liabilities that were previously accounted for as operating leases. The Company applied its estimated weighted average incremental borrowing rate at January 1, 2019 of 5.5% to determine the amount of lease liabilities.

(d) ***Research and development***

Research and development costs are expensed as incurred, including expenses associated with clinical research studies and product development. Research and development costs totaled $234,000 and $0 for the three months ended March 31, 2019 and 2018, respectively.

3. Inventory

		As at March 31, 2019		As at December 31, 2018
Serialized	$	2,689	$	1,833
Non-serialized		926		1,054
Total inventory	$	3,615	$	2,887
		For the three months ended March 31,		
		2019		**2018**
Inventory Expensed	$	1,148	$	536

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

4. Property and equipment

Cost	Medical equipment	Furniture and equipment	Land and building	Leasehold improvements	Vehicles	Total
Balance December 31, 2017	**$ 23,683**	**$ 886**	**$ —**	**$ 177**	**$ 1,673**	**$ 26,419**
Additions	13,054	288	631	79	470	14,522
Disposals	(1,196)	—	—	—	(361)	(1,557)
Balance December 31, 2018	**$ 35,541**	**$ 1,174**	**$ 631**	**$ 256**	**$ 1,782**	**$ 39,384**
Additions	4,269	145	1,372	102	—	5,888
Disposals	(257)	—	—	(52)	—	(309)
Balance March 31, 2019	**$ 39,553**	**$ 1,319**	**$ 2,003**	**$ 306**	**$ 1,782**	**$ 44,963**

Accumulated depreciation	Medical equipment	Furniture and equipment	Land and building	Leasehold improvements	Vehicles	Total
Balance December 31, 2017	**$ 4,262**	**$ 444**	**$ —**	**$ 78**	**$ 945**	**$ 5,729**
Depreciation	3,195	276	11	27	274	3,783
Disposals	(426)	—	—	—	(264)	(690)
Balance December 31, 2018	**$ 7,031**	**$ 720**	**$ 11**	**$ 105**	**$ 955**	**$ 8,822**
Depreciation	1,166	45	109	10	70	1,400
Disposals	(195)	—	—	(34)	—	(229)
Balance March 31, 2019	**$ 8,002**	**$ 765**	**$ 120**	**$ 81**	**$ 1,025**	**$ 9,993**

Net Book value	Medical equipment	Furniture and equipment	Land and building	Leasehold improvements	Vehicles	Total
Balance December 31, 2017	**$ 19,421**	**$ 442**	**$ —**	**$ 99**	**$ 728**	**$ 20,690**
Balance December 31, 2018	**$ 28,510**	**$ 454**	**$ 620**	**$ 151**	**$ 827**	**$ 30,562**
Balance March 31, 2019	**$ 31,551**	**$ 554**	**$ 1,883**	**$ 225**	**$ 757**	**$ 34,970**

Depreciation in the amount of $1,166,000 and $535,000 for the three months ended March 31, 2019 and 2018, respectively, is included in cost of revenue. Included in medical equipment above is equipment acquired under lease obligations whose cost and accumulated depreciation at March 31, 2019 total $7,955,000 and $1,292,000, respectively. At December 31, 2018, cost and accumulated depreciation on equipment acquired under finance lease obligations was $7,943,000 and $1,100,000, respectively.

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

Included in property and equipment above are right-of-use assets that relate primarily to the lease of medical equipment, land, and buildings:

	Medical equipment	Land and building	Total
Cost			
Balance December 31, 2018	$ —	$ —	$ —
On adoption of IFRS 16	7,955	1,372	9,327
Balance as of March 31, 2019	**$ 7,955**	**$ 1,372**	**$ 9,327**
Accumulated depreciation			
Balance December 31, 2018	**$ —**	**$ —**	**$ —**
Depreciation	**192**	**105**	**297**
Balance as of March 31, 2019	**$ 192**	**$ 105**	**$ 297**
Net book value as of March 31, 2019	**$ 7,763**	**$ 1,267**	**$ 9,030**

5. Senior credit facility

On March 19, 2019, the Company executed an amendment to the line of credit with Hancock Whitney Bank. As a result of the amendment, the available credit was increased from $5.0 million to $10.0 million and will expire in 2020. Any amounts advanced will be secured by substantially all our assets and carry an interest rate of one month ICE libor plus 3.00%, with a 4% interest rate floor. There were no borrowings against this facility at March 31, 2019 and December 31, 2018.

The available borrowing base restriction was removed from the agreement and all current financial covenants were replaced with the following covenants:

Financial Covenant	Require Ratio
Total Debt to Adjusted EBITDA (Quarterly)	less than 1.50:1.00
Minimum Working Capital (Quarterly)	at least $2,500,000
Fixed Charge Coverages Ratio (Quarterly)	greater than 1.35:1.00

The Company was in compliance with all covenants at March 31, 2019.

6. Lease liabilities

The Company has recognized lease liabilities in relation to the arrangement to lease medical equipment, land, and buildings. Included in lease liabilities are various leases for equipment with an implied interest rate at fixed rates between 0% - 12.85%, secured by equipment, due between 2019 and 2023. The Company's weighted average interest rate was 0.86% and 1.9% for all equipment lease liabilities outstanding as of March 31, 2019 and 2018, respectively.

	March 31, 2019	December 31, 2018
Lease liabilities	$ 7,154	$ 3,425
Less:		
Current portion of lease liabilities	$ (5,966)	$ (3,031)
Net long-term lease liabilities	**$ 1,188**	**$ 394**

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

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

	Principal Payments	Interest Payments
Less than one year (current portion)	$ 5,966	$ 127
Between one and four years	748	142
Five years or more	440	28
Total	**$ 7,154**	**$ 297**

Interest expense related to these obligations for the three months ended March 31, 2019 and 2018 amounted to $26,000 and $47,000, respectively.

7. Capital Management

The Company considers its capital to be shareholders' equity, which is comprised of share capital, contributed surplus, and retained earnings, which was $36,549,000 at March 31, 2019 (December 31, 2018 - $35,033,000) along with lease liabilities which totaled $7,154,000 at March 31, 2019 (December 31, 2018 - $3,425,000). 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 three month periods ended March 31, 2019 and 2018.

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

8. Financial instruments

Fair value hierarchy

The fair value of the warrants at March 31, 2019 was calculated using the Black-Scholes option pricing model with the following assumptions

Risk-free interest rate	1.56%
Expected volatility	68.40%
Expected life of warrants	0.42 years
Expected dividend yield	Nil

No warrants were issued during the three months ended March 31, 2019 and 2018.

Warrant Conversion Liability	
Balance December 31, 2017	**$ 158**
Warrants issued	—
Loss on warrant conversion liability	205
Balance December 31, 2018	**$ 363**
Warrants issued	—
Loss on warrant conversion liability	169
Balance March 31, 2019	**$ 532**

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

9. Share Capital

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

The Company’s authorized share capital consists of an unlimited number of common shares.

(b) ***Issued and outstanding share capital***

The Company has only one class of stock outstanding, common share. At March 31, 2019, there were 37,678,098 common shares outstanding (December 31, 2018 - 37,500,815). Common shares are classified as equity.

For the three month period ended March 31, 2019, the Company re-purchased and canceled 365,100 common shares at a cost of $1,522,000 pursuant to the Normal Course Issuer Bid (the "NCIB") that went into effect on November 29, 2018. Total shares re-purchased to date under the NCIB were 775,803 as of March 31, 2019. The Company’s share capital was reduced by the average carrying value of the shares repurchased for cancellation. The excess paid over the average carrying value of stated capital was $1,500,000 and was recognized as a reduction to retained earnings.

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	177	$	2.60
Total			**177**	**$**	**2.60**

Warrants Continuity Schedule

	Number of warrants (000's)		Weighted average exercise price (CAD$)
Balance December 31, 2017	**2,601**	**$**	**9.74**
Exercised	(2)	$	2.60
Expired	(2,422)	$	10.27
Balance December 31, 2018	**177**	**$**	**2.60**
Exercised	—	$	—
Expired	—	$	—
Balance March 31, 2019	**177**	**$**	**2.60**

There were no warrants issued or exercised during the three month period ended March 31, 2019.

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

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

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

For the three months ended March 31, 2019, the Company recorded stock-based compensation expense of $880,000 (March 31, 2018 - $561,000). A summary of stock-based compensation is provided below:

	Three months ended March 31,	
	2019	**2018**
Stock-based compensation - options	$ 578	$ 145
Stock-based compensation - restricted stock	302	416
Total	$ 880	$ 561

(e) ***Options***

The Company has a stock option plan, which it uses for grants to directors, officers, and employees. 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$)
Balance December 31, 2017	**878**	**$ 4.31**
Issued	696	$ 2.27
Expired / Forfeited	(29)	$ 4.43
Balance December 31, 2018	**1,545**	**$ 3.39**
Issued	1,179	$ 2.27
Exercised	(2)	$ 2.27
Expired / Forfeited	(6)	$ 2.98
Balance March 31, 2019	**2,716**	**$ 3.39**

The Company had 6,000 stock options forfeited during the three month period ended March 31, 2019 with a weighted average exercise price of $2.98. As of March 31, 2019, the Company had 1,078,000 exercisable stock options outstanding with a weighted average exercise price of CAD $3.87.

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

Share price	$ 5.20 (CAD$)
Risk-free interest rate	1.96%
Expected volatility	81.00%
Expected life of options	10 Years
Expected dividend yield	Nil

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

(f) *Restricted stock units*

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

	Number of Restricted Stock Units (000's)		Weighted average grant price (CAD$)
Balance December 31, 2017	**—**	**$**	**—**
Issued	1,774	$	4.60
Expired / Forfeited	(59)	$	2.25
Balance December 31, 2018	**1,715**	**$**	**2.41**
Issued	61	$	5.49
Vested	(540)	$	2.25
Expired / Forfeited	(33)	$	2.25
Balance March 31, 2019	**1,203**	**$**	**2.65**

The fair value of the restricted stock units has been charged to the consolidated statements of income and comprehensive income and credited to contributed surplus over the proper vesting period, using a valuation method with the following assumptions:

		As at March 31, 2019
Share price	$	2.25 - 5.49 (CAD$)
Expected life of restricted stock units		1 - 3 Years
Expected dividend yield		Nil

(g) *Phantom share units*

The Company has a phantom share unit plan, which it uses for grants to directors, officers, and employees. Phantom share units granted under the plan are non-assignable and are settled in cash at vesting. The Company accounts for phantom share units using the liability accounting method. Under this method, the fair value of phantom share units at the date of grant is amortized over the vesting period and the offsetting credit is recorded as an increase in other accrued liabilities. Phantom share units vest annually over a three-year period. A summary of phantom share units is provided below:

	Number of Phantom Share Units (000's)		Weighted average price (CAD$)
Balance December 31, 2017	**—**	**$**	**—**
Issued	1,793	$	4.60
Expired / Forfeited	(101)	$	4.60
Balance December 31, 2018	**1,692**	**$**	**4.60**
Issued	—	$	—
Expired / Forfeited	(55)	$	4.60
Balance March 31, 2019	**1,637**	**$**	**4.60**

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

The fair value of the phantom share units has been charged to the consolidated statements of income and comprehensive income and credited over the proper vesting period to phantom share unit liability which is included in accrued liabilities and long-term accrued liabilities, using a valuation method with the following assumptions:

		As at March 31, 2019
Share price	$	6.59 (CAD$)
Remaining life of phantom share units		0.25 - 3 Years
Calculated fair value of phantom share units	$	4,530,000

The total liability associated with phantom share units at March 31, 2019 is $4,530,000, with $1,962,000 of this balance included in long-term accrued liabilities and the remaining portion in current accrued liabilities.

10. Expenses by nature

	Three months ended March 31,			
		2019		2018
Included in cost of revenue:				
Inventory expenses (Note 3)	$	1,148	$	536
Operating leases		128		273
Depreciation of medical equipment (Note 4)		1,166		535
Direct employee salary and benefits		2,511		2,163
Other		88		52
Total cost of revenue	**$**	**5,041**	**$**	**3,559**
Included in selling, general, and administrative:				
Employee salary and benefits (Note 13)	$	7,136	$	3,655
Auto		278		209
Bad debt expense (Note 2)		2,125		1,532
Facilities		213		239
Travel, Meals, & Entertainment		520		344
Office Expense		403		354
Professional Fees		204		238
Public company expense		151		313
Insurance		74		84
Legal		119		149
Licenses & Fees		58		32
Marketing		47		44
Other		159		96
Total selling, general, and administrative	**$**	**11,487**	**$**	**7,289**

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

11. 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 March 31, 2019 and December 31, 2018 both the carrying and fair value amounts of the Company's cash and cash equivalents, accounts receivable, trade payables, accrued liabilities, warrant liability, and the current portion of finance leases 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 lifetime expected credit losses.

As of March 31, 2019, no one customer represented more than 10% of outstanding accounts receivable. The Company does have receivables at March 31, 2019 from Medicare and Medicaid, representing 50% and 19%, respectively, and 69% combined, of total outstanding receivables (December 31, 2018 - 68%). 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. At March 31, 2019, the Company had approximately $1.7 million in over ninety days outstanding accounts receivable partially related to payments held under a CMS audit that was concluded during 2018. The Company expects to receive payment for a majority of these claims.

Accounts receivable aging for each reporting period is as follows:

	Current	30-60	60-90	Over 90	Total accounts receivable	Allowance for doubtful accounts
March 31, 2019	$ 5,319	$ 2,775	$ 2,226	$ 7,235	$ 17,555	$ 5,889
December 31, 2018	$ 5,241	$ 1,451	$ 956	$ 5,457	$ 13,105	$ 4,266

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 March 31, 2019, 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 $18,884,000 of current liabilities (December 31, 2018 - $16,981,000) that are due within one year but had $23,613,000 of current assets (December 31, 2018 - $22,963,000) in addition to positive cash flow.

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

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.

12. 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:

	Three months ended March 31,	
	2019	**2018**
Net income attributable to shareholders	$ 2,154	$ 2,341
Basic number of shares	37,827,058	37,909,628
Basic earnings per share	$ 0.06	$ 0.06
Diluted weighted average number of shares	39,449,123	38,084,846
Diluted earnings per share	$ 0.05	$ 0.06

13. 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, Casey Hoyt and President, Michael Moore. Rental payments under this lease agreement are $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 executive officers. Including the above agreements, the Company paid key management personnel the following:

	Three months ended March 31,	
	2019	**2018**
Salaries and Benefits	$ 1,386	$ 691
Stock-based Compensation	563	359
Rent	61	58
Total	$ 2,010	$ 1,108

14. Subsequent Events

Conversion of Accounts Payable into Short-term Finance Lease

Subsequent to March 31, 2019, the Company entered into a finance lease agreement with a third party and as a result $1,562,000 of accounts payable was converted to a twelve month finance lease.