INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENT OF

MEDICALGORITHMICS

CORORATE GROUP OF COMPANIES FOR THE 1ST QUARTER OF 2017

I Consolidated selected financial data

Consolidated statement of financial position	in PLN thousand Mar 31 2017	in PLN thousand Dec 31 2016	in EUR thousand Mar 31 201	in EUR thousand Dec 31 201
Fixed assets	270 211	280 325	64 034	63 365
Intangible assets	223 654	237 383	53 001	53 658
Long-term financial assets	19 042	18 744	4 513	4 237
Current assets	43 586	89 566	10 329	20 245
Short-term receivables	19 257	29 867	4 563	6 751
Long-term liabilities	69 823	81 663	16 547	18 459
Short-term liabilities	37 302	73 282	8 840	16 565
Equity attributable to the Parent Company's Shareholders	171 788	176 970	40 710	40 002
Share capital	361	361	86	82
Non-controlling interest	34 884	37 976	8 267	8 584
Number of shares	3 606 526	3 606 526	3 606 526	3 606 526
Book value per ordinary share (PLN/EUR)	47.63	49.07	11.29	11.09

Consolidated statement of comprehensive income Revenues from sales	Jan 1 2017- Mar 31 2017	Jan 1 2016- Mar 31 2016	Jan 1 2017- Mar 31 2017	Jan 1 2016- Mar 31 2016
Profit/(loss) on sales	41 446	14 739	9 663	3 384
Profit/(loss) from operating activity	1 076	(6 024)	251	(1 383)
Profit/(loss) before taxation	1 294	(6 129)	302	(1 407)
Net profit/(loss)	9	(6 714)	2	(1 541)
Consolidated statement of comprehensive income Revenues from sales	1 045	(5 984)	244	(1 374)
- attributable to the Parent Company's Shareholders	1 962	(5 984)	457	(1 374)
- attributable to non-controlling interest	(917)	-	(214)	-
Net profit/(loss) attributable to the Parent Company's shareholders per one share (in PLN) - basic	0.54	(1.73)	0.13	(0.40)

Consolidated cash flow statement	Jan 1 2017- Mar 31 2017	Jan 1 2016- Mar 31 2016	Jan 1 2017- Mar 31 2017	Jan 1 2016- Mar 31 2016
Net cash flow from operating activity	3 112	5 986	726	1 374
Net cash flow from investment activity	(39 910)	(96 680)	(9 305)	(22 195)
Net cash flow from financial activity	1 234	80 569	288	18 497
Total net cash flow	(35 564)	(10 125)	(8 292)	(2 324)

Method of conversion of selected data to EUR:

- The presented, selected items of the statement of financial position have been calculated using the average exchange rate as published by the National Bank of Poland on March 31st 2017, amounting to 4.2198 PLN/EUR and on
  December 31st 2016, amounting to 4.4240 PLN/EUR;
- The presented selected items of the statement of comprehensive income and the cash flow statement have been calculated using the rate, which constitutes an arithmetic average of two average exchange rates as published by the National Bank of Poland on the last day of each month of the financial period from January 1st 2017 - March 31st 2017, amounting to 4.2891 PLN/EUR and from January 1st 2016 - March 31st 2016, amounting to 4.3559 PLN/EUR.

		Mar 31 2017	31.12.2016	Mar 31 2016
Intangible assets	11	223 654	237 383	115 406
Property, plant and equipment		22 370	22 112	4 744
Long-term receivables	13	-	1	5
Financial assets	12	19 042	18 744	34 732
Deferred tax assets		5 145	2 085	1 835
Fixed assets		**270 211**	**280 325**	**156 722**
Stocks		-	-	9 202
Trade and other receivables	13	19 257	29 867	34 944
Financial assets	12	12 353	12 159	14 816
Cash and cash equivalents	14	11 976	47 540	9 837
Current assets		**43 586**	**89 566**	**68 799**
TOTAL ASSETS		**313 797**	**369 891**	**225 521**

		Mar 31 2017	31.12.2016	Mar 31 2016
Share capital		361	361	361
Supplementary capital		124 622	124 622	116 668
Incentive program valuation capital		4 174	3 170	793
Retained earnings		42 070	40 108	7 941
Exchange rate difference		561	8 709	-
Equity attributable to the Parent Company's Shareholders		**171 788**	**176 970**	**125 763**
Non-controlling interest		**34 884**	**37 976**	**7 926**
Provisions		474	414	-
Deferred tax liability		3 310	3 659	19
Bond liabilities and other financial liabilities	18	65 489	76 961	24 485
Prepayments and accruals		550	629	-
Long-term liabilities		**69 823**	**81 663**	**24 504**
Loans and credits		1 303	69	1 072
Bond liabilities and other financial liabilities	18	16 817	10 511	55 700
Trade and other liabilities	17	17 081	61 752	4 476
Income tax liabilities		104	441	-
Accruals and prepayments		1 997	509	6 080
Short-term liabilities		**37 302**	**73 282**	**67 328**
Total liabilities		**107 125**	**154 945**	**91 832**
TOTAL LIABILITIES AND EQUITY		**313 797**	**369 891**	**225 521**

III Consolidated statement of comprehensive income

		Jan 1 2017- Mar 31 2017	Jan 1 2016- Mar 31 2016
Revenues from sales	6	**41 446**	**14 739**
Materials and raw materials consumption		(1 805)	(1 423)
Employee benefits	7	(26 329)	(3 078)
Amortisation	8	(3 426)	(489)
Third party services	9	(7 630)	(15 595)
Other		(1 180)	(179)
Total cost of sales		**(40 370)**	**(20 764)**
Profit/(loss) on sales		**1 076**	**(6 024)**
Other operating revenues		240	387
Other operating costs		(22)	(492)
Profit/(loss) from operating activity		**1 294**	**(6 129)**
Financial revenues		520	52
Financial costs		(1 805)	(638)
Net financial costs		**(1 285)**	**(585)**
Profit/(loss) before taxation		**9**	**(6 714)**
Income tax		1 036	730
Net profit/(loss) from continued operations		**1 045**	**(5 984)**
Net profit/(loss) for the accounting period attributable to the Parent Company's shareholders		1 962	(5 984)
Net profit/(loss) for the accounting period attributable to non-controlling interest		(917)	-
		1 045	**(5 984)**
Net profit/(loss) attributable to the Parent Company's shareholders per share (in PLN)			
- basic		0.54	(1.73)
- diluted		0.54	(1.73)
Net profit/(loss) from continued operations		**1 045**	**(5 984)**
Other comprehensive income			
Currency translation profit/loss		(7 253)	-
Foreign exchange differences on credits which constitute a part of net investmentin subsidiaries		(3 790)	-
Deferred tax on valuation of exchange rate differences on credits		720	-
Other comprehensive income		**(10 323)**	**-**
Total comprehensive income for the accounting period		**(9 278)**	**(5 984)**
Comprehensive income for the accounting period attributable to the Parent Company's shareholders		(6 186)	(5 984)
Comprehensive income for the accounting period attributable to non-controlling interest		(3 092)	-
		(9 278)	**(5 984)**

IV Consolidated statement of changes in equity

	Share capital	Supplemen-tary capital	Incentive program valuation capital	Retained earnings	Differences exchange rate	Equity attributable to shareholders of the Parent Company	Non-controlling interest
Equity as at Jan 01 2017							
Comprehensive income for the accounting period	**361**	**124 622**	**3 170**	**40 108**	**8 709**	**176 970**	**37 976**
Net profit for the previous accounting period of the Parent Company	-		-	-	-	-	-
Net profit for the current accounting period of the Parent Company	-	-	-	1 962	-	1 962	(917)
Other comprehensive income	-	-	-	-	(8 148)	(8 148)	(2 175)
	-	**-**	**-**	**1 962**	**(8 148)**	**(6 186)**	**(3 092)**
Transactions recorded directly in equity							
Payment of dividend	-	-	-	-	-	-	-
Valuation of incentive program	-	-	1 005	-	-	1 005	-
	-	**-**	**1 005**	**-**	**-**	**1 005**	**-**
Equity as at Mar 31 2017	**361**	**124 622**	**4 174**	**42 070**	**561**	**171 788**	**34 884**

	Share capital	Supplemen-tary capital	Incentive program valuation capital	Retained earnings	Differences exchange rate	Equity attributable to shareholders of the Parent Company	Non-controlling interest
Equity as at Jan 01 2016	**346**	**84 917**	**-**	**13 925**	**-**	**99 188**	**-**
omprehensive income for the accounting period							
Net profit for the previous accounting period of the Parent Company	-	7 533	-	(7 533)	-	-	-
Net profit for the current accounting period of the Parent Company	-	-	-	40 108	-	40 108	1 896
Other comprehensive income	-	-	-	-	8 709	8 709	357
	-	**7 533**	**-**	**32 575**	**8 709**	**48 817**	**2 253**
Transactions recorded directly in equity							
Minority capital from purchase of shares in subsidiaries	-	-	-	-	-	-	16 921
Equity contributions by minority s hareholders	-	-	-	-	-	-	18 802
Issue of F series shares in the Parent Company	15	32 172	-	-	-	32 187	-
Payment of dividend	-	-	-	(6 392)	-	(6 392)	-
Incentive program valuation	-	-	3 170	-	-	3 170	-
	15	**32 172**	**3 170**	**(6 392)**	**-**	**28 965**	**35 723**
Equity as at Dec 31 2016	**361**	**124 622**	**3 170**	**40 108**	**8 709**	**176 970**	**37 976**

IV Consolidated statement of changes in equity

	Share capital	Supplementary capital	Incentive program valuation capital	Retained earnings	Differences exchange rate	Equity attributable to shareholders of the Parent Company	Non-controlling interest
Equity as at Jan 01 2016							
Comprehensive income for the accounting period	**346**	**84 917**	**-**	**13 925**	**-**	**99 188**	**-**
Net profit for the current accounting period of the Parent Company	-	-	-	(5 984)	-	(5 984)	27
Consolidation adjustments on account of exchange rate differences	-	-	-	-	-	-	(2)
	-	**-**	**-**	**(5 984)**	**-**	**(5 984)**	**25**
Transactions recorded directly in equity							
Minority capital from purchase of shares in subsidiaries	-	-	-	-	-	-	7 901
Payment for issue of F series shares in the Parent Company - not recorded as at Mar 31 2016	15	33 020	-	-	-	33 035	-
Surplus of cost of supplementary capital payment in subsidiaries and costs of purchasing subsidiaries	-	(1 269)	-	-	-	(1 269)	-
Incentive program valuation	-	-	793	-	-	793	-
	15	**31 751**	**793**	**-**	**-**	**32 559**	**7 901**
Equity as of Mar 31 2016	**361**	**116 668**	**793**	**7 941**	**-**	**125 763**	**7 926**

V Consolidated cash flow statement

Cash flows from operating activity	Jan 1 2017-Mar 31 2017	Jan 1 2016-Mar 31 2016
Net profit/(loss) for the accounting period	**1 045**	**(5 984)**
Amortisation of property, plant and equipment	1 463	67
Amortisation of intangible assets	1 963	419
Income tax	(1 756)	(730)
Change in stocks	-	(84)
Change in trade and other receivables	(629)	(24 732)
Change in prepayments and accruals	1 409	4 641
Change in trade and other liabilities	(1 442)	3 889
Change in financial liabilities	(964)	33 708
Change in financial assets	(492)	127
Change in provisions	60	-
Incentive program valuation	1 005	793
Change in assets and liabilities and equity due to acquisition of subsidiaries	-	(5 052)
Net financial (revenues)/costs	-	(62)
Tax paid	(1 991)	(991)
Exchange rate differences resulting from translation of receivables and liabilities		
Other	3 441	(24)
	3 112	**5 986**
Cash flow from investment activity		
Receipts from sales of investments	-	532
Interest received	-	63
Acquisition of subsidiaries	-	(96 515)
Purchase of intangible assets	(32 240)	-
Purchase of other investments	-	(730)
Purchase of property, plant and equipment	(2 906)	(30)
	(39 910)	**(96 680)**
Cash flows from financial activity		
Revenues from loans taken	1 234	-
Revenues from issue of debt instruments	-	47 534
Revenues from issue of shares	-	33 035
	1 234	**80 569**
Total net cash flows	**(35 564)**	**(10 125)**
Cash and cash equivalents at the beginning of the period	47 540	19 962
Cash at the end of the period	**11 976**	**9 837**

1. General information

Unless otherwise suggested by the context, the terms included in the contents such as "the Company", "Medicalgorithmics S.A.","Medicalgorithmics", "the Parent Company" or other terms with similar meanings refer to Medicalgorithmics S.A., whereas "the Group", "the Corporate Group of Companies" or "Medicalgorithmics Corporate Group of Companies", or other similar terms refer to the Corporate Group of Companies which includes Medicalgorithmics S.A. and the entities subject to consolidation.
The term "Report" refers to this consolidated report for the 1st quarter of 2017. "The consolidated statement" shall mean the interim condensed consolidated financial statement of Medicalgorithmics Corporate Group of Companies drawn up on March 31st 2017 and covering the period from January 1st 2017 to March 31st 2017 and providing respective comparative data for December 31st 2016 and for the corresponding comparative period of 2016.

2. Information on Medicalgorithmics Corporate Group of Companies.

Medicalgorithmics Corporate Group of Companies includes Medicalgorithmics S.A. and its subsidiary companies.
On October 14th 2015 Medicalgorithmics S.A. set up its subsidiary named Medicalgorithmics US Holding Corporation ("MDG HoldCo") seated in Wilmington in Delaware USA. The Parent Company owns 100% shares in the share capital of MDG HoldCo, which represents 100% of votes at its Shareholders' Meeting.
On March 30th 2016, Medicalgorithmics S.A purchased 75% of shares in Medi-Lynx Cardiac Monitoring, LLC ("Medi-Lynx") seated in Plano, Texas, USA through subsidiary company. The seller and the buyer agreed on the final purchase price amounting to USD 34,058,470. The value of the shares has been calculated based on the financial results of Medi-Lynx for the previous twelve months since June 30th 2015 verified by CBIZ, Inc., an audit and consulting company, based on a due diligence analysis of Medi-Lynx commissioned by the Parent Company.
The basic areas of activity of the Corporate Group of Companies include:

- providing services in IT technologies and biotechnology;
- providing ECG monitoring services;
- research and development works;
- manufacture of electro-medical equipment.

The Group operates on the largest and most promising markets - in the USA, the UK, Canada, Spain, Brazil and Australia.
The history of success of Medicalgorithmics Corporate Group of Companies is based on three factors:

- cutting-edge technology (PocketECG);
- an extremely favourable business model;
- a set of world-class experts in the field of IT systems, programming, medical equipment, processing digital signals and project management.

There were no changes in organisation of the Corporate Group of Companies over the period that this statement applies to. The composition of Medicalgorithmics Corporate Group of Companies and its organisational and its capital links as at December 31st 2016 is as follows:

3. Information about the Parent Company

Medicalgorithmics S.A. is a Polish cutting-edge technology company striving to reach the position of the leading provider of systemic and algorithmic solutions in cardiological diagnostics, in particular in analysis of ECG signal. The Parent Company started its operations as a limited liability company with an aim to commercialise the Polish technical concepts and is presently one of the major players on the market of cardiological telemetry. Medicalgorithmics S.A. is a joint-stock company established in Poland. The Parent Company has been established by notary act, Repertory A No. 1327/2005 of June 23rd 2005. The Parent Company made its debut on the Main Market of the Warsaw Stock Exchange on February 3rd 2014.

The Parent Company is entered to the register of entrepreneurs of the National Court Register kept by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register under register number KRS 0000372848.

The Parent Company has been granted statistical identification number REGON 140186973 and tax identification number NIP 5213361457. The Parent Company is seated at the address: Al. Jerozolimskie 81, 02-001 Warszawa.

As at the balance sheet date and the date of drawing up and publishing this consolidated financial statement the Parent Company's Management Board and Supervisory Board were composed of the following individuals:

Management Board

Marek Dziubiński - President of the Management Board

Tomasz Mularczyk – Vice President of the Management Board in charge of IT

Supervisory Board

Marek Tatar – Chairman of the Supervisory Board Marcin Hoffmann - Supervisory Board Member Jan Kunkowski - Supervisory Board Member, Piotr Żółkiewicz - Supervisory Board Member, Artur Małek - Supervisory Board Member. There were no changes in the composition of the Parent Company's Management Board or Supervisory Board over the 1st quarter of 2017 and the period from the balance sheet date to the date of publishing this consolidated financial statement for the first quarter of 2017.

4. Basis for preparation of the consolidated financial statement

4.1. Declaration of conformity

The Condensed Interim Consolidated Financial Statement of the Corporate Group of Companies and the Condensed Interim Separate Financial Statement of Medicalgorithmics S.A. have been drawn up in line with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34") and in line with appropriate accounting standards applying to interim financial reporting standards adopted by the EU, published and valid for the period of drawing up these statements. Interim condensed financial statements do not cover all the information and disclosures required in the annual financial statement. They should be read in conjunction with the consolidated financial statement of the Corporate Group of Companies and the Company's separate financial statement for the year ended on December 31st 2016 and the Management Board's report on the operations of the Corporate Group of Companies as well as the Management Board's report on the Company's operations for the year 2016.

The financial statement has been drawn up assuming that the operations are going to be continued in the foreseeable future, that is, in particular, for the period of at least 12 months starting from the balance sheet date.

4.2. Presentational and functional currency

The information in the consolidated financial statement has been presented in Polish zloty (PLN) and rounded up to full thousands without decimal places. Polish zloty is the functional currency of Medicalgorithmics S.A. US dollar (USD) is the functional currency of Medi-Lynx and MDG HoldCo.

a. Conversion of statements of subsidiaries with functional currency other than PLN

As at the balance sheet date assets and liabilities of subsidiaries with functional currencies other than PLN are translated into the presentation currency of the Group (PLN) using the exchange rate valid on the balance sheet date and their statements of comprehensive income are translated using the average weighted exchange rate for the given financial period. Equities are calculated as they exist at the date of taking control by the Parent Company, at the average exchange rate of the National Bank of Poland for that date. In case of a new issue of additional shares, they are translated using an average exchange rate for the given currency as announced by the National Bank of Poland on the day of entering the increase in capital in the records. Exchange rate differences resulting from such translation are recognised in other comprehensive income and accumulated in a separate item of equity. At the moment of sale of entity, the deferred exchange rate differences accumulated in equity, related to a given entity, are recognised in profit and loss.

b. Translation of items expressed in currencies other than the functional currency

A given company's transactions expressed in currencies other than the given company's functional currency shall be translated to its functional currency using an exchange rate valid on the day of entering into the transaction As at the balance sheet date monetary assets and liabilities expressed in currencies other than the given company's functional currency are translated into the functional currency using an appropriate average exchange valid at the end of the accounting period, as announced for the given currency by the Central Bank of the country, in which the company's headquarters is located. Exchange rate differences arising from translation are recognised respectively in financial revenues (costs) or, if so provided in the accounting principles (policies), capitalised in the value of assets. Non-monetary assets and liabilities recognised at historical cost expressed in a currency other than the functional currency are recognised at historical cost from the date of transaction. Non-monetary assets and liabilities recognised at fair value in a currency other than the functional currency are translated using the exchange rate of the date of measuring at fair value. Profits or losses resulting from translation of non- monetary assets and liabilities measured at fair value are recognised in accordance with recognition of profit or loss on account of change in fair value (which means, respectively, in other comprehensive income or in profit or loss, depending on where the change in fair value is recognised).

4.3. Estimates and judgements made

Financial statements of the Parent Company and all of its subsidiaries have been included in the consolidated financial statement using full consolidation. Drawing up a financial statement coherent with the IFRS-EU requires that the Management Board makes estimates, judgements and assumptions that influence use of the adopted principles of accountancy and presented values of assets, liabilities, revenues and costs, the real values of which might differ from their estimated values.

The estimates and assumptions related thereto are subject to ongoing verification.

A change in accounting estimates is recognized in the period, in which it was made or in the current period and in future periods if the implemented change in estimates refers both to the present period and future periods.

In particular, significant uncertainties as regards estimates and judgements made using the accounting principles that had the strongest effect on the values set out in the financial statement apply to:

- intangible assets (estimates regarding projections used in impairment tests as well as estimates regarding the used amortisation rates in case of intangible assets);
- property, plant and equipment (estimates regarding the applied amortisation rates);
- estimates regarding fair value and impairment of financial assets, including shares in subsidiaries;
- trade receivables and other financial assets, including granted credits (as at the balance sheet date the Corporate Group of Companies assesses whether there is objective evidence of impairment of a given receivable or group of receivables; if recoverable value of an asset is lower than its balance sheet value, the Corporate Group of Companies makes a revaluation write-off to the level of current value of planned cash flows);
- revenues from sales generated by Medi-Lynx (revenue estimates based historical cash receipts for provided services);
- provisions for liabilities and trade liabilities;
- stocks (the Management Board makes an assessment whether there is evidence of possible impairment of stocks; recognising an impairment requires assessing net recoverable value);
- deferred tax assets (from the perspective of asset recoverability and potential revaluation write-offs);
- deferred tax provisions.

4.4. Error adjustment

In comparison with the previous periods, the prepared condensed interim consolidated financial statement does not include adjustment of the fundamental error.

4.5. Changes of the applied accounting policy rules

In comparison with the previous periods, while drawing up this condensed interim consolidated financial statement, the Group did not change any significant previously applied accounting rules. The description of the applied accounting policy rules can be found in the published consolidated financial statement of Medicalgorithmics Corporate Group of Companies for 2016.

4.6. The body authorizing the financial statement for publication

The Parent Company's Management Board is the body authorizing the financial statement for publication.

4.7. Consolidation rules

The consolidation rules adopted for drawing up this financial statement have not changed in relation to the principles applied and described in detail in explanatory notes to the consolidated financial statement for 2016.

4.8. Comparative data

In consequence of significant changes in the composition of the Corporate Group of Companies of March 30th 2016 (purchase of shares in Medi-Lynx) the Parent Company's Management Board decided to draw up a consolidated financial statement for the first time, for the quarter of a year ended on March 31st 2016. The results of Medi-Lynx for the last day of that period only were subject to consolidation.

5. Reporting operating segments

The basic areas of activity of the Corporate Group of Companies include:

- providing services in IT technologies and biotechnology;
- providing ECG monitoring services;
- research and development works;
- manufacture of electro-medical equipment.

The Corporate Group of Companies operates mostly outside of Poland, in particular in the USA. The operations are classified as part of one segment that covers both sales of diagnostic and IT services, and sales of equipment related to the offered services.

The Corporate Group of Companies applies IFRS 8 "Operating segments" for the purpose of identifying operating segments. Pursuant to IFRS 8 operating segments need to be identified based on internal reports on those elements of the Corporate Group of Companies that are regularly verified by individuals responsible for assigning resources to a given segment and making an assessment of its financial results. On that basis the Corporate Group of Companies identifies only one operating segment, which involves providing systemic and algorithmic solutions in cardiological diagnostics, in particular with respect to ECG signal analysis. The segment involves sales of services to the said extent and delivery of cardiological diagnostics equipment, which allows for completion of the said tasks.

As there is only one operating segment in the Corporate Group of Companies, the Group does not present separate financial data for that one segment. Consequently, all of its assets and liabilities, revenues and costs are assigned to that segment. Na poziomie Grupy Kapitałowej Zarząd nie przegląda wyników działalności w podziale na żadne inne typy działalności oraz nie posiada osobnych danych finansowych.

6. Structure of revenues from sales

Structure by category	Jan 1 2017-Mar 31 2017	Jan 1 2016-Mar 31 2016
Revenues from sale of services	41 294	12 313
Revenues from sale of equipment	152	2 426
Total revenues	**41 446**	**14 739**

Territorial structure	Jan 1 2017-Mar 31 2017	Jan 1 2016-Mar 31 2016
Domestic sales	2	96
Export	41 444	14 643
Total revenues	**41 446**	**14 739**

7. Employee benefits

	Jan 1 2017-Mar 31 2017	Jan 1 2016-Mar 31 2016
Remuneration	(23 328)	(1 528)
Premiums	(1 622)	(512)
Incentive program	(1 005)	(793)
Social insurance and other benefits to employees	(374)	(245)
	(26 329)	**(3 078)**

Details of the incentive program have been put forward in item 18.6 of the Consolidated Financial Statement of Medicalgorithmics Corporate Group of Companies for the year 2016.

8. Amortisation

From the Group's perspective, PocketECG equipment constitutes fixed assets. Consequently, the value of equipment used for rendering diagnostic services by Medi-Lynx is amortised for a period of 3 years. The total cost on that account was PLN 991 thousand in the 1st quarter of 2017. Additionally, in the 1st quarter of 2017 the Group initiated amortisation of Medi-Lynx customer database (recognised as a consequence of the final settlements of the purchase price of shares in Medi-Lynx) and AMI/Spectocor customer database (purchased as a result of the settlement with AMI/Spectocor of December 28th 2016). The customer databases are going to be amortised for a period of20 years and the amortisation cost was PLN 1,560 thousand in the 1st quarter of 2017.

9. Third party services

	Jan 1 2017-Mar 31 2017	Jan 1 2016-Mar 31 2016
Data transmission costs	(1 264)	-
Lease	(1 037)	(302)
Internet and telecommunications services	(735)	(11)
Accounting services	(275)	(37)
Advisory services	(1 925)	(14 740)
Courier and transportation services	(1 105)	(12)
Lease	(31)	(31)
Maintenance services	(441)	-
Other third party services	(817)	(462)
	(7 630)	**(15 595)**

10. Effective tax rate

	Jan 1 2017-Mar 31 2017	Jan 1 2016-Mar 31 2016
Profit before taxation	9	(6 714)
Tax at the statutory tax rate	(2)	1 275
Costs other than tax deductible costs	(71)	(12)
Difference in tax rates between Poland (19%) and the USA (34%)	584	-
Tax amortisation of goodwill	735	-
Other	(210)	(533)
Tax recognised in statement of comprehensive income	**1 036**	**730**

11. Intangible assets

Gross value of intangible assets	Balance sheet	Customer databases	Development costs	Development works in progress	Other	Total
Gross value as at Jan 01 2017	**92 890**	**132 179**	**5 937**	**9 723**	**1 791**	**242 520**
Increases	-	-	-	755	59	**814**
Decreases	-	-	-	-	-	**-**
Exchange rate differences	(5 161)	(7 395)	-	-	(47)	**(12 602)**
Gross value as at Mar 31 2017	**87 729**	**124 784**	**5 937**	**10 478**	**1 803**	**230 732**
Amortisation and impairment write-offs						
Amortization and impairment write-offs as at Jan 01 2017	**-**	**-**	**4 311**	**-**	**826**	**5 137**
Amortisation	**-**	**1 560**	**309**	**-**	**94**	**1 963**
Exchange rate differences	-	-	-	-	(22)	**(22)**
Amortization and impairment write-offs as at Mar 31 2017	**-**	**1 560**	**4 620**	**-**	**898**	**7 078**
Net value						
As at Jan 01 2017	**92 890**	**132 179**	**1 626**	**9 723**	**965**	**237 383**
As at Mar 31 2017	**87 729**	**123 224**	**1 317**	**10 478**	**905**	**223 654**

Gross value of intangible assets	Balance sheet	Customer databases	Development costs	Development works in progress	Other	Total
Gross value as at Jan 01 2016	**-**	**-**	**5 937**	**7 380**	**641**	**13 958**
Increases	92 890	132 179	-	2 343	1 150	**228 562 ***
Decreases	-	-	-	-	-	**-**
Gross value as at Mar 31 2016	**92 890**	**132 179**	**5 937**	**9 723**	**1 791**	**242 520**
Amortisation and impairment write-offs						
Amortization and impairment write-offs as at Jan 01 2016	**-**	**-**	**2 945**	**-**	**241**	**3 186**
Amortisation	-	-	1 366	-	585	**1 951 ***
Amortization and impairment write-offs as at Dec 31 2016	**-**	**-**	**4 311**	**-**	**826**	**5 137**
Net value						
As at Jan 01 2016	**-**	**-**	**2 992**	**7 380**	**400**	**10 772**
As at Dec 31 2016	**92 890**	**132 179**	**1 626**	**9 723**	**965**	**237 383 ***

*increase in gross value, amortisation and net value include, among others, intangible assets taken over as a consequence of purchasing shares in Medi-Lynx.

Gross value of intangible assets	Balance sheet	Customer databases	Development costs	Development works in progress	Other	Total
Gross value as at Jan 01 2016	**-**	**-**	**5 937**	**7 380**	**641**	**13 958**
Increases		-	-	682	48	**730**
Purchase of subsidiary company	104 323	-	-	-	-	**104 323**
Decreases	-	-	-	-	-	**-**
Gross value as at Mar 31 2016	**104 323**	**-**	**5 937**	**8 062**	**689**	**119 011**
Amortisation and impairment write-offs						
Amortisation and impairment write-offs as at Jan 01 2016	-	-	2 945	-	241	3 186
Purchase of subsidiary company	-	-	-	-	-	-
Amortisation	-	-	364	-	55	419
Amortisation and impairment write-offs as at Mar 31 2016	-	-	2 945	-	241	3 186
Net value						
As at Jan 01 2016	**-**	**-**	**2 992**	**7 380**	**400**	**10 772**
As at Mar 31 2016	**104 323**	**-**	**2 628**	**8 062**	**393**	**115 406**

Goodwill

Spółka	Date of	**Purchased net holding in assets**	**Purchase price (in USD thousand)**	**Net fair value of purchased assets (in USD thousand)**	**Goodwill (in USD thousand)**
Medi-Lynx Cardiac Monitoring, LLC	30.03.2016	75%	34 210	11 984	22 226

On March 30th 2016, Medicalgorithmics S.A purchased 75% of shares in Medi-Lynx seated in Plano, Texas, USA through its subsidiary company, MDG HoldCo. Purchase of the subsidiary resulted in a positive goodwill in the consolidated financial statement of Medicalgorithmics Corporate Group of Companies. The amount of goodwill is a surplus of transferred payment above the fair value of identifiable purchased net assets of the subsidiary.

The financial results of purchasing shares in Medi-Lynx were settled in the financial statement for 2016. The amount of goodwill determined as at December 31st 2016 was PLN 92,890 thousand (USD 22,226 thousand). Goodwill is tested for impairment annually (or more frequently, if there is evidence of possible impairment). Impairment write-offs are recognised as costs of the period and are not reversed in the subsequent period.

Goodwill is tax amortised at the level of MDG HoldCo subsidiary company (covered by the consolidated financial statement). Goodwill recognised on the acquisition results mostly from the business model adopted by Medi-Lynx, which is mostly based on human capital and established relations with medical entities. These main components allow to provide highest quality medical services on the very promising American market.

The most important measurable benefits expected as a consequence of the acquisition are:

- increased turnover on the American market;
- better use of PocketECG equipment;
- increased effectiveness of the product distribution channels.

Customer databases

a. Medi-Lynx customer database (net amount as at the balance sheet date is USD 12,474 thousand)

As a consequence of purchasing shares in Medi-Lynx, by allocation of the purchase price, a customer database was extracted and broken down into:

- customers;
- type of services rendered to them (examinations made);
- main payers – insurers covering the costs of the conducted examinations.

The customer database valuation was made using the comparative method (second level of the fair value hierarchy). Medi- Lynx customer database was valued based on the transaction of purchase of a similar customer database from AMI Monitoring, Inc. ("AMI") and Spectocor, LLC ("Spectocor") – two unrelated entities, as conducted by the Corporate Group of Companies in December 2016.

b. AMI customer database (net amount as at the balance sheet date is USD 18,758 thousand)

In December 2016 the Corporate Group of Companies purchased customer databases from AMI and Spectocor. The databases had structures similar to the identified customer database of Medi-Lynx, broken down into the same main payers and the same types of examinations. The purchase price of the AMI/Spectocor database was USD 18,995 thousand.

The Group tests customer databases for impairment annually and amortises their value for a period of 20 years from the date of acquisition.

Development costs

As at the Balance sheet date the Corporate Group of Companies capitalised expenditure at development works as intangible assets.

They include:

- PocketECG - PocketECG III is currently the most technologically advanced solution offered by the Issuer. The basic technological advantage of the new solution consists in integration of a device that previously consisted of two elements into one specifically designed smartphone-type recorder operating based on Android OS. Moreover, functionality of the device was extended. Medicalgorithmics obtained financial support for implementation works as part of the project, for developing previous versions of the system, as part of a program by the Foundation for the Polish Science.

Net value of the project: PLN 1.251 thousand

The project is going to be amortised by December 31st 2019.

The aforementioned conducted development works were co-financed by the EU funds, the
non-amortised value of which as at March 31st 2017 was PLN 914 thousand (compared to PLN 1,138 thousand on December 31st 2016).

According to the rules of the Corporate Group of Companies, value of the received subsidies is recognised as accruals and amortised over time according to the amortisation period of the incurred development costs.

Development works in progress

The Corporate Group of Companies is running 3 projects that have not reached a patent stage. This is why the details of these solutions are not disclosed. These are projects that are currently key to the Parent Company:

- project 1: Cardiac tele-rehabilitation equipment;
- project 2: Software optimising repetitive tasks in hospital IT networks in the USA;
- project 3: Instant remote ECG description equipment and system (12-channel ECG). The projects are financed by own resources.

In the opinion of the Parent Company's Management Board the conducted development works recognised in intangible assets shall be completed and are going to provide the expected economic effects. The main costs capitalised as part of development works in progress are R&D employees' remuneration costs.

12. Financial assets

	Mar 31 2017	Dec 31 2016	Mar 31 2016
Investment certificates	31 395	30 903	49 458
Financial assets	**31 395**	**30 903**	**49 458**
including long-term part	19 042	18 744	34 732
including short-term part	12 353	12 159	14 816

Investment certificates

As at March 31st 2017 the Corporate Group of Companies is holding 317,699 investment certificates of Bezpieczne Obligacje Fundusz Inwestycyjny Zamknięty fund ("the fund") managed by Copernicus Capital TFI S.A. ("the Organization"). The value of one investment certificate was measured at PLN 98.82 as at March 31st 2017. The Organization measures the fair value of one certificate. The fund mostly invest in debt securities listed on the Catalyst market (level 1 of the fair value hierarchy). Investment certificates are measured at fair value through profit and loss.
On January 27th 2017 the Corporate Group of Companies requested redemption of 125,000 certificates. The total value of these certificates (PLN 12,353 thousand) was recognised in short-term financial assets on March 31st 2017. They were redeemed on April 5th 2017.

13. Receivables

	Mar 31 2017	Dec 31 2016	Mar 31 2016
Trade receivables	15 147	15 619	30 889
Receivables from minority shareholders	-	11 677	-
Budget receivables	1 451	918	1 039
Other receivables	293	272	88
Accruals and prepayments	2 366	1 382	2 933
	19 257	**29 868**	**34 949**
Long-term	-	1	5
Short-term	19 257	29 867	34 944

Fair value of the receivables approximates their book value. The total value of outstanding trade receivables not covered by an impairment write-off as at March 31st 2017 is PLN 3,739 thousand.

Receivables recognised by the Group in the USA with respect to insurers refunding remuneration for services are estimated based on actual cash flows received by the Company. Historical analyses of payments for the services allow to estimate that the average period of payment of receivables for services provided is up to 9 months. After that period all outstanding receivables are covered with an impairment write-off. Pursuant to the accounting policy an impairment write off for estimated payments from insurers, which amounts to PLN 1,676 thousand in the 1st quarter of 2017 is recognised in the amount of revenues from sales of medical services, thus decreasing their value.

14. Cash and cash equivalents

	Mar 31 2017	Dec 31 2016	Mar 31 2016
Cash in hand	9	13	8
Cash on bank accounts	11 967	17 890	7 159
Short-term deposits	-	29 637	2 670
	11 976	**47 540**	**9 837**

15. The Parent Company's shareholding structure as at the balance sheet date

Shareholder	Number of shares as at May 22 2017	% of share share	Numer of votes	% of the general number of votes	Change over the period March 30 2017-May 22 2017
Aviva Investors Poland TFI S.A.	200 267	5.55%	200 267	5.55%	+ 25 072
Marek Dziubiński (President of the Management Board)	400 000	11.09%	400 000	11.09%	no changes
New Europe Ventures LLC	276 061	7.65%	276 061	7.65%	no changes
NN OFE	451 000	12.51%	451 000	12.51%	no changes
Nordea OFE	257 332	7.14%	257 332	7.14%	no changes
TFI PZU S.A.*	342 792	9.50%	342 792	9.50%	no changes
Other Shareholders	1 679 074	46.56%	1 679 074	46.56%	-200 267
TOTAL NUMBER OF SHARES	**3 606 526**				

* information based on the number of shares registered by the entity at the Ordinary Shareholders' Meeting of June 27th 2016.

The Parent Company did not purchase own shares and does not hold any own shares over the period from January 1st 2017 to March 31st 2017.

16. Loans and credits

In order to improve its current liquidity, the Parent Company obtained additional funding in February 2017 in the form of a credit line in the current account up to PLN 8 million, after the balance sheet date, decreased to PLN 5 million.

	Mar 31 2017	Dec 31 2016	Mar 31 2016
Short-term credit card debt	672	69	1 072
Short-term bank loan debt	631	-	-
	1 303	**69**	**1 072**

17. Trade and other liabilities

	Mar 31 2017	Dec 31 2016	Mar 31 2016
Trade liabilities	14 506	14 651	4 252
Liabilities on account of acquisition of customer database	-	39 976	-
Liabilities on account of remuneration	1 109	1 144	-
Budget liabilities	1 409	1 228	224
Other liabilities	57	4 753	-
	17 081	**61 752**	**4 476**
Income tax liabilities	104	441	-

	Mar 31 2017	Dec 31 2016	Mar 31 2016
Subsidies	914	1 138	1 858
Other	1 633	-	4 222
	2 547	**1 138**	**6 080**
including short-term ones	550	629	-
including long-term ones	1 997	509	6 080

18. Bond liabilities and other financial liabilities

	Mar 31 2017	Dec 31 2016	Mar 31 2016
Bond liabilities	50 801	50 073	47 535
Liabilities on account of purchasing shares of Medi-Lynx	31 505	37 399	32 650
Financial liabilities	**82 306**	**87 472**	**80 185**
including long-term ones	65 489	76 961	24 485
including short-term ones	16 817	10 511	55 700

Issue and redemption of bonds

In the 2nd quarter of 2016 the Company issued 50,000 long-term bonds, each with the nominal value of PLN 1 thousand. The bond duration is 3 years. Their redemption date is April 21st 2019. The issued bonds bear interest at a floating rate. It s amount is determined at WIBOR base level for six-month PLN deposits (WIBOR6M) increased by variable interest margin dependent on the Issuer's debt to equity ratio. The objective of the issue is to finance investment in Medi-Lynx Cardiac Monitoring, LLC subsidiary entity (redemption of A0 series short-term bonds). The other part of revenues from the issue was allocated to funding the Company's working capital.
Interest on the bonds is due in 6-month periods.

Liabilities on account of purchasing shares of Medi-Lynx

Moreover, other financial liabilities include a promissory note liability to the seller of shares of Medi-Lynx, that is, Medi-Lynx Monitoring, Inc., amounting to USD 7.959 thousand, on account of purchasing shares. Payments are split into four equal instalments, each amounting to USD 1,990 thousand, falling in four subsequent years from taking over the shares, that is, for the period 2017-2020. The liabilities bear fixed interest rate. Value of the liability decreased by USD 1,044 thousand in the 1st quarter of 2017, pursuant to an arrangement with a minority shareholder, with respect to settlement of AMI customer database acquisition.

Financial liabilities are valued at amortised cost taking into account the effective interest rate.
The amount presented in short-term financial liabilities corresponds to interest on bonds calculated as at

the balance sheet date and paid in April 2017 and the first two instalments of the liability on account of acquisition of Medi-Lynx, the first of which was paid in April 2017 - the other shall be due on March 30th 2018.

19. Explanations on the seasonal or cyclical nature of the operations of Medicalgorithmics Corporate Group of Companies

Neither the operations of the Company, nor of the subsidiaries of Medicalgorithmics Corporate Group of Companies are of a seasonal or cyclical nature. It is also necessary to bear in mind that the number of medical examinations ordered by doctors in the USA (which influences the number of tests conducted, thereby on the revenues of Medi-Lynx subsididiary company) over the year might be subject to fluctuations. The lesser volume of examinations ordered falls in holiday periods (e.g. Christmas, the Independence Day, Thanksgiving).

20. Issue of securities

No securities were issued in the 1st quarter of 2017.

21. Listing of the ownership of the Parent Company's shares by the Issuer's managers and supervisors

The table below puts forward the Company's shares directly or indirectly held by the Members of the Management Board or the Supervisory Board as at the date of publishing this report and emphasises changes made since the date of publication of the Parent Company's previous annual report. The information included in the table are based on information received from the Management Board and Supervisory Board Members, pursuant to Art. 160 par. 1 of the Act on Trading in Financial Instruments.

Person	Function exercised in the bodies of the Issuer	Number of held shares directly	Number of held shares indirectly[1]	Change over the period March 30 2017-May 22 2017
Marek Dziubiński	President of the Management Board	400 000	-	No changes
Tomasz Mularczyk	Vice President of the Management Board in charge of IT	103 954	-	No changes
Piotr Żółkiewicz	Member of the Supervisory Board	7 469	-	No changes
Marek Tatar	Chairman of the Supervisory Board	-	-	No changes
Jan Kunkowski	Member of the Supervisory Board	100	-	No changes
Artur Małek	Member of the Supervisory Board	-	-	No changes
Marcin Hoffmann	Member of the Supervisory Board	-	148 122[2]	No changes

1) Direct ownership of shares by a given person shall be deemed as the person's involvement in the entity directly holding the Shares, such involvement is not equal to the parent entity's status with respect to the entity directly holding the Shares. Detailed information concerning the relations
between individuals and entities holding shares have been put forward in further notes to the table.
2) Marcin Hoffmann is the president of the management board of BIB Seed Capital S.A. seated in Poznań and owns 40% of the entity's shares, the total number of which is 148,122 - which accounts for 4.11% share in the Issuer's share capital and in the general number of votes at the Issuer's General Shareholder's Meeting, BIB Seed Capital S.A. is not a company subsidiary to Marcin Hoffmann (within the meaning of the Public Offering Act).

22. Information on paid or declared dividend

The Parent Company did not declare or pay any dividend over the reported period.

23. Brief description of achievements or failures along with a description of the most important events related to them

In an analysis of the results of Medicalgorithmics Corporate Group of Companies it is necessary to remember that 2017 is the first year of full consolidation of results of its subsidiary company, Medi-Lynx. The shares of Medi-Lynx were taken over on March 30th 2016. Therefore, comparative data for the 1st quarter of 2016 cover the subsidiary's results for one day only. Finishing the disputes with AMI/Spectocor and signing a Settlement, under which the Corporate Group of Companies acquired the right to take over the customers and employees of AMI/Spectocor on December 28th 2016 were another factors that had a significant influence on the comparability of data. Detailed information concerning the settlement can be found in note 28 of the Consolidated Financial Statement of Medicalgorithmics Corporate Group of Companies for 2016.

In the first quarter of 2017 the Corporate Group of Companies continued its strategy and based i ts operations on the innovative PocketECG system. The Group's consolidated revenues mostly include:

- revenues from medical services rendered on the American market generated by Medi-Lynx;
- subscription revenues earned by Medicalgorithmics S.A. from cooperation with its strategic partners excluding Medi-Lynx;
- revenues from sales of PocketECG equipment, excluding Medi-Lynx.

Revenues of Medi-Lynx are a derivative of the number of diagnostic services rendered in a given period and the refund rate for the examination (in case of public insurers) of the amount of contractual payments for a given procedure (in case of private insurers). The Parent Company, on the other hand, operates based on the subscription model, which means that it derives revenues from sales of equipment and, subsequently, collecting subscription fees for their use and use of the associated software and server infrastructure. The table below sets out the major items of the Group's statement of comprehensive income for the first quarter of 2017 and 2016.

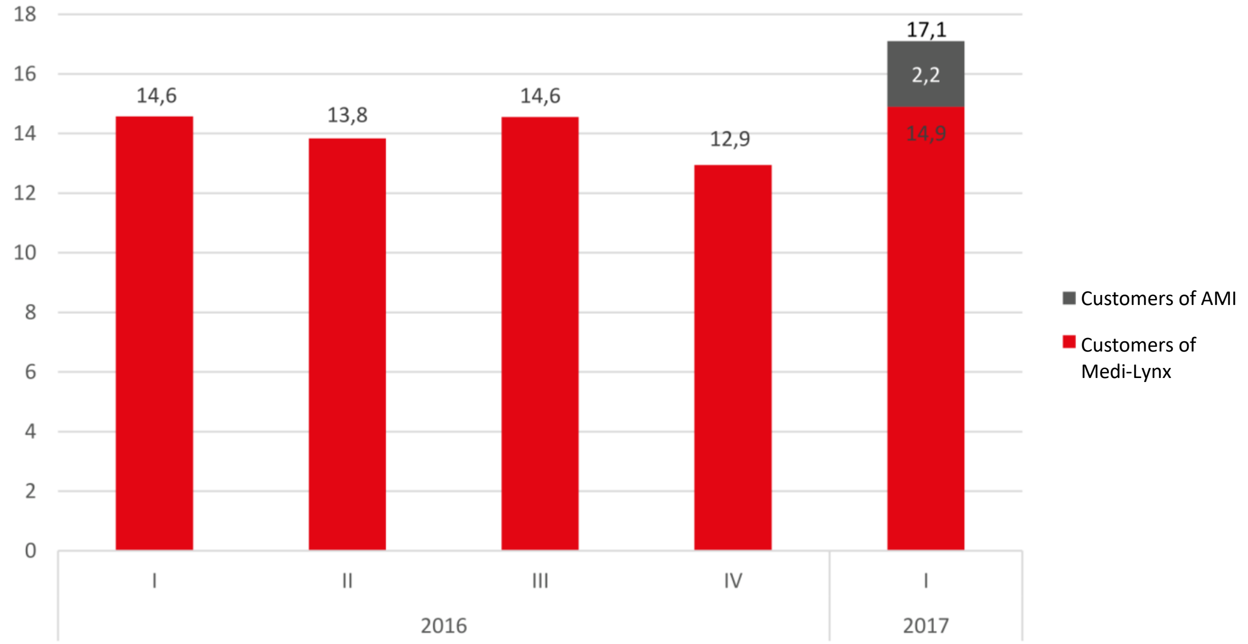
(in PLN thousand)	1Q 2017	1Q 2016	Difference	Difference in %
Revenues from sales	41 446	14 739	26 707	181%
Cost of sales	(40 370)	(20 764)	(19 606)	94%
Profit/(loss) on sales	1 076	(6 025)	7 101	118%
Profit/(loss) from operating activity	1 294	(6 129)	7 423	121%
EBITDA (operating result + amortisation)	4 720	(5 640)	10 360	184%
Net financial costs	(1 285)	(585)	(700)	120%
Profit/(loss) before taxation	9	(6 714)	6 723	100%
Net profit/(loss)	**1 045**	**(5 984)**	**7 029**	**117%**
- attributable to the Parent Company's Shareholders	1 962	(5 984)	7 946	133%
- attributable to non-controlling interest	(917)	-	(917)	(100%)

Revenues from sales

In the first quarter of 2017 revenues of the Corporate Group of Companies amounted to PLN 41,466 thousand, which makes an increase by 181 % compared to the corresponding period of 2016 and is mainly due to consolidation of the financial results of Medi-Lynx for the entire first quarter of 2017. Additionally, gradual takeover and servicing AMI's customers had a positive influence on the revenues from sales of diagnostic services, in particular in March 2017. The number of submitted applications in the last two weeks of March 2017 was 3,625, which was 69% more than the two weeks' average number of applications submitted by Medi-Lynx in 2016. The chart below presents the number of payment applications submitted to insurers over the recent quarters.

The effect of this increase will be clearly visible in revenues of the second quarter of 2017. Additionally, the Management Board expects a further increase in the volume of examinations provided in subsequent months of 2017.

Chart 1. Number of payment applications submitted to insurers (in thousand)

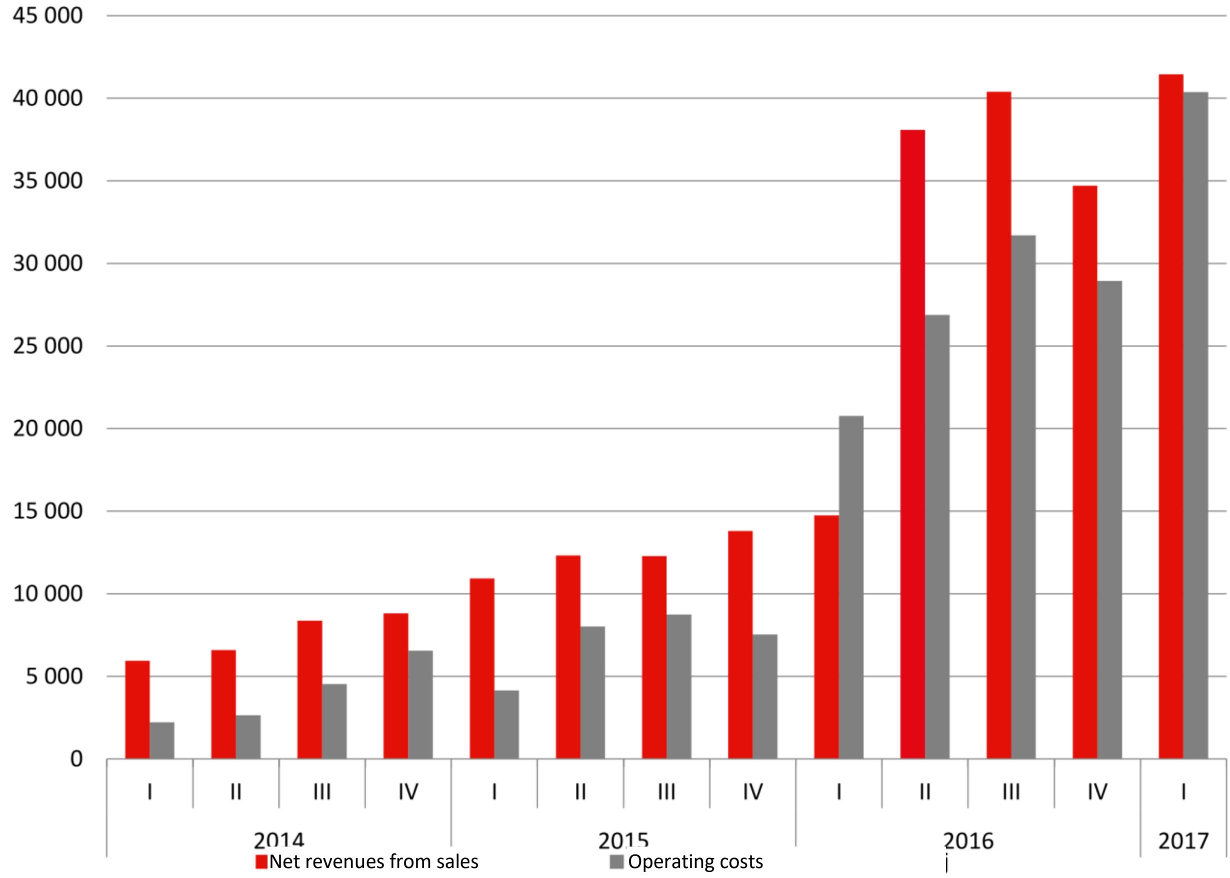


Revenues from sales of diagnostic services provided by the subsidiary company, Medi-Lynx, accounted for most of the Group's revenues in the first quarter of 2017. Sales of subscriptions to external customers (excluding sales to the subsidiary company) from the Parent Company make another part of the revenues. Revenues from AMI, which were still earned in January and February of 2017 pursuant to the Agreement of December 28th 2016, account for the largest part of subscription revenues. As a consequence of taking over customers from AMI by Medi-Lynx and an effective completion of cooperation with AMI starting from March 2017, the vast majority of subscription revenues in the future is going to be earned inside Medicalgorithmics Group.

The significantly lower proportion of sales of hardware in relation to the total revenues in the 1st quarte r of 2015 results mostly from excluding sales of hardware to Medi-Lynx at the consolidation stage.

The vast majority of the revenues was denominated in U.S. dollars, like in the previous years. Diversification of the currency structure of revenues from sales is expected in the following years on account of geographical expansion of the Corporate Group of Companies.

Chart 2. The Group's revenues from sales and costs of sales in individual quarters of 2014-2017 (in PLN thousand)



Revenues from sales of Medicalgorithmics S.A. at the individual level increased by more than 2% and amounted to PLN 14.8 million. The decrease in subscription revenues results mostly from the fact that, starting from March 2017, the Company no longer provides services to AMI/Spectocor, pursuant to the settlement. The decrease was offset by increased revenues from sales of equipment to Medi-Lynx subsidiary company, resulting from development of its operations.

Operating costs

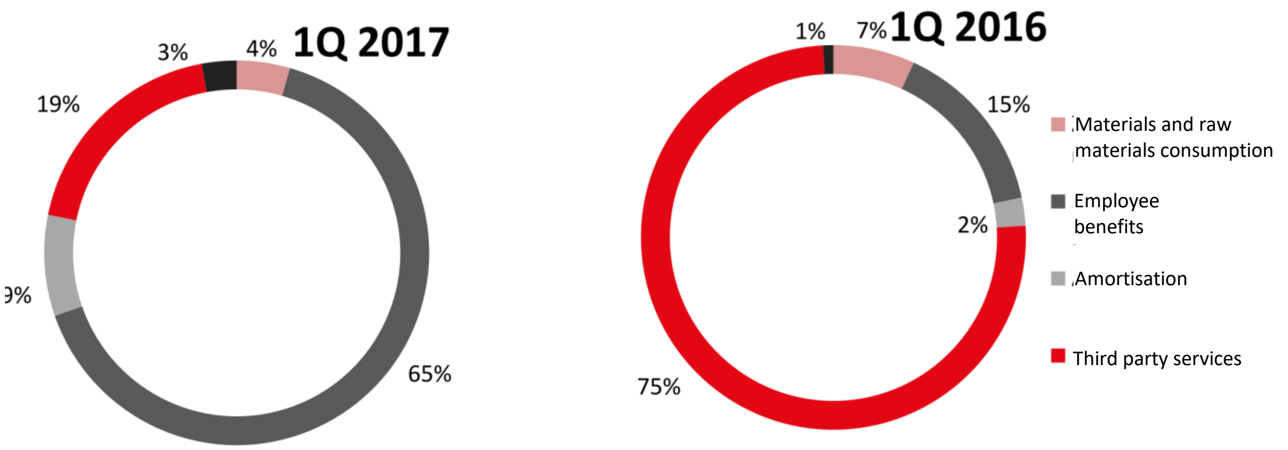
Similarly to the changes observed at the level of revenues, operating costs in the first quarter of 2017 also increased considerably compared to the corresponding period of 2016, as a consequence of initiating consolidation of Medi-Lynx results for the entire 1st quarter of 2017. Costs of employee benefits, which accounted for 65% of the Group's operating costs, are the most significant item of operating costs. The high share of employee benefits in the costs structure results from the nature of the Group's operations as they are based on human capital. The operations are based on human capital - both at the level of the Parent Company, where most employees are IT specialists and production engineers, and at the level of the subsidiary entity, which mostly employs ECG technicians and sales and customer service specialists. Undoubtedly, it is also very significant that the Group has been incurring the costs of remuneration of a part of the employees directly employed by AMI (employed by Medi-Lynx immediately upon signing the settlement for the purpose of training and preparing them for servicing of the expected, increasing volume of patients) from the beginning of 2017 as a consequence of the aforementioned settlement. The increase in employment occurred primarily in the first quarter of 2017 and was completed at the beginning of the second quarter, so that the Group has an operational capability of providing an increased scale of examinations.

Increased amortisation costs are also visible in the first quarter of 2017 - they presently account for 9% of all operating costs. The increase is mostly due to beginning amortisation of the value of Medi-Lynx customer database and AMI's database acquired on December 28th 2016 from AMI, put forward in detail in note 11 above. Pursuant to the Management Board's projections, the customer databases are going to earn economic benefits and are going to be amortised for the period of 20 years. The aggregate amortisation cost for both of the databases was PLN 1,560 thousand in the first quarter of 2017. Additionally, as PocketECG equipment constitutes fixed assets in the Group's opinion, the costs of manufacture of PocketECG devices sold to Medi-Lynx is not recognised in consumption of materials and energy as a non-recurring cost, but it is amortised for a period of 3 years, which corresponds to the expected useful life cycle of the devices. The total cost on that account was PLN 991 thousand in the 1st quarter of 2017.

The significant drop, as compared to the corresponding period, related to costs of Third party services. In the first quarter of 2016 non-recurring costs of advisory services related to the aforementioned conducted proceedings against AMI/Spectocor, as well as purchase of shares in Medi-Lynx were recognised as these costs. Starting from 2017 these costs do not occur anymore as a consequence of the signed settlement.

Similarly, at the individual level, an increase in costs of employee benefits is clearly visible - they approximate 50% of the aggregate operating costs of Medicalgorithmics S.A. The increase is mostly due to the increase in employment, the higher cost of incentive program valuation and a higher level of result-dependent premiums. The increase in consumption of materials and raw materials results directly from a higher level of sales of equipment compared to the corresponding period in the previous year. Similarly to the consolidated level, the clearly visible decrease in costs of third party services results from finishing the court disputes in the USA, which were a considerable burden to the Company's results in the previous periods.

Chart 3. Operating costs structure in the 1st quarter of 2017 and the 1st quarter of 2016 (in %)



Profit and profitability

Net profit generated in the 1st quarter of 2017 was PLN 1,045 thousand and profit per shareholders of the Parent Company amounted to PLN 1,962 thousand. The result of the 1st quarter at the level of profit before taxation was charged with net financial costs amounting to PLN 1,285 thousand, which was influenced by interest calculated on the Group's financial liabilities and negative exchange rate differences. Margin on sales was 3% and EBITDA margin was 11%. The values are temporarily decreased by the process of taking over AMI's employees and customers. As it has been indicated above, a significant proportion of variable costs related to the leap in the scale of operations were incurred from January 2017, whereas the effect of taking over the customers has not been noticeable in the revenues until March 2017.

Property and financial condition

The amount of assets on March 31st 2017 was PLN 313,797 thousand, which makes a decrease by PLN 56,094 thousand (15%) compared to the end of 2016. The final settlement of accounts related to the purchase of AMI customer database in the first quarter of 2017 is the main cause behind the drop in the balance sheet amount. Payment of the liability on account of purchasing the customer database of December 31st 2016, which was nearly PLN 40 million, has strongly influenced the cash balance and a decrease in receivables from the minority shareholder (PLN 11.7 million). A decrease in foreign exchange rate, at which assets and liabilities of subsidiaries are translated, is another important factor. The exchange rate for dollar dropped by more than 5% compared to December 31st 2016, which resulted in exchange rate differences resulting from translation amounting to PLN 7,253 thousand and exchange rate differences on credits amounting to PLN 3,790 thousand. Both of the items have been recognised under other comprehensive income in the statement of comprehensive income.

24. Indicating factors and events, including extraordinary ones, which had a substantial impact on the condensed financial statement

There were no factors and events in the first quarter of 2017 other than the ones described in item 23 that would have a significant impact on the condensed financial statement.

25. The Management Board's position on the probability of forecasts

The Corporate Group of Companies has not published financial projections for the period that this report applies to, or for future periods.

26. Information on loans, credits or warranties granted by the Group

The Parent Company secures an interest-bearing promissory note of Medicalgorithmics US Holding Corporation subsidiary company seated in the USA issued in favour of Medi-Lynx Monitoring, Inc. as payment for the purchase of shares in Medi-Lynx Cardiac Monitoring, LLC. The amount of the promissory note is USD 7,958,982 thousand. It shall become mature within the subsequent four years after its issuing, that is, in the period 2017-2020. The guarantee was issued by Medicalgorithmics S.A. up to the amount of USD 20,000 thousand.

27. Other information that the issuer deems as important for assessment of the Group's situation and capability of meeting its commitments

Finishing the disputes with AMI/Spectocor and signing the Settlement, pursuant to which the Corporate Group of Companies acquired the right to take over customers and employees of AMI/Spectocor on December 28th 2016 were significant factors that influenced the data for the first quarter of 2017. Detailed information concerning the settlement can be found in note 28 of the Consolidated Financial Statement of Medicalgorithmics Corporate Group of Companies for 2016. Due to the need to employ new staff and the specifics of recognising revenues in Medi-Lynx, the effect of taking over the assets of AMI/Spectocor on the costs side has exceeded the growth of revenues. However, the Management Board expects that the visible growing trend in the provided examinations that the Company reported in its current report No. 5/2017 of April 11th 2016 is going to continue and translate into increasing revenues, which should be visible in the subsequent quarters of 2017.

28. Indicating the factors that, in the issuer's opinion, have an influence on the results achieved by it over at least the subsequent quarter of a year

In the Management Board's opinion, the present financial condition of the Corporate Group of Companies and its development prospects pose no material threats to its operations in the future. There are, however, factors, both internal and external, that might have a direct or indirect impact on its future financial results. The most important ones include:

- the process of taking over AMI's customers;
- consolidation of financial results of Medi-Lynx for the entire financial year 2017;
- changes on the medical services market in the USA, on which the Group earns most of its revenues;
- an increase in sales to partners, with which the Parent Company has concluded agreements, that might

contribute to diversification and an increase of its revenues;
- development of the cardiological diagnostics sector in the countries, in which the products of the Corporate Group of Companies are already present and the level of refunds for services rendered using PocketECG equipment;
- fluctuations in currencies of the countries, in which the Corporate Group of Companies operates.

29. Information on significant court cases

Over the accounting period there were no proceedings pending before a court, an arbitration authority or a public administration body with respect to the Parent Company's liabilities or debts, the value of which, separately or jointly, would account for at least 10% of the Parent Company's equity.

30. Events after the balance sheet date

The first part of the liability was paid after the balance sheet date to the seller of shares in Medi-Lynx, that is, Medi-Lynx Monitoring, Inc. To this end, the Parent Company increased the capital of MDG HoldCo subsidiary company by the amount of USD 2,015 thousand.
The Parent Company's Management Board was informed on April 12th 2017 that the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, registered a conditional increase of the Company's share capital on March 2nd 2017. The Company's share capital has been conditionally increased by the amount not higher than PLN 59,800 (in words: fifty nine thousand eight hundred zloty) by way of an issue of not more than 598,000 (in words: five hundred ninety eight thousand) G series ordinary bearer shares, each of PLN 0.10 (ten grosz) nominal value, each issued for the purpose of granting rights to take over G series shares to holders of A series subscription warrants issued to be offered to authorised persons as part of the incentive program implemented in the Company. The amount of the Company's share capital and the general number of votes resulting from the issued shares have not changed as a consequence of registration of a conditional increase of the Company's share capital.
Detailed information on this issue can be found in current report No. 6/2017.

31. Interim condensed separate statement of financial position

		Mar 31 2017	31.12.2016	Mar 31 2016
Intangible assets		12 322	11 874	11 083
Property, plant and equipment		927	893	842
Long-term receivables	35.4	-	1	4
Financial assets	35.2	87 632	69 386	77 209
Shares in subsidiaries	35.3	86 720	86 720	54 169
Deferred tax assets		2 348	1 774	1 835
Fixed assets		**189 949**	**170 648**	**145 142**
Stocks		9 112	9 710	9 202
Trade and other receivables	35.4	8 843	33 548	9 722
Financial assets	35.2	19 111	12 159	14 816
Cash and cash equivalents		1 681	31 779	4 427
Current assets		**38 747**	**87 196**	**38 167**
TOTAL ASSETS		**228 696**	**257 844**	**183 309**

		Mar 31 2017	31.12.2016	Mar 31 2016
Share capital		361	361	361
Supplementary capital		124 621	124 621	117 937
Incentive program valuation capital		4 175	3 170	792
Retained earnings		42 435	41 634	7 865
Equity		**171 592**	**169 786**	**126 955**
Provisions		474	414	-
Deferred tax liability		790	1 562	19
Bond liabilities	35.5	49 788	49 738	-
Accruals and prepayments		550	629	-
Long-term liabilities		**51 602**	**52 343**	**19**
Loans and credits		658	9	14
Bond liabilities	35.5	1 014	335	47 535
Trade and other liabilities	35.6	1 845	34 505	5 025
Income tax liabilities		-	357	-
Accruals and prepayments		1 985	509	3 761
Short-term liabilities		**5 502**	**35 715**	**56 335**
Total liabilities		**57 104**	**88 058**	**56 354**
TOTAL LIABILITIES AND EQUITY		**228 696**	**257 844**	**183 309**

32. Condensed separate interim profit and loss account as well as statement of other comprehensive income

		Jan 1 2017- Mar 31 2017	Jan 1 2016- Mar 31 2016
Revenues from sales	35.1	**14 793**	**14 449**
Materials and raw materials consumption		(3 119)	(1 379)
Employee benefits		(5 005)	(2 966)
Amortisation		(444)	(486)
Third party services		(1 238)	(15 552)
Other		(158)	(176)
Total cost of sales		**(9 964)**	**(20 559)**
Profit/(loss) on sales		**4 829**	**(6 110)**
Other operating revenues		240	387
Other operating costs		(18)	(486)
Profit/(loss) from operating activity		**5 051**	**(6 209)**
Financial revenues		1 216	52
Financial costs		(5 249)	(634)
Net financial costs		**(4 033)**	**(582)**
Profit/(loss) before taxation		**1 018**	**(6 791)**
Income tax		(217)	731
Net profit/(loss) from continued operations		**801**	**(6 060)**
Other total income for the accounting period		-	-
Total comprehensive income for the accounting period		**801**	**(6 060)**
Basic profit/(loss) per share in PLN		0.22	(1.75)
Diluted profit/(loss) per share in PLN		0.22	(1.75)

33. Condensed separate interim statement of changes in equity

	Share capital	Supple-mentary capital	Incentive program valuation capital	Retained earnings	Total equity
Equity as at Jan 01 2017	**361**	**124 621**	**3 170**	**41 634**	**169 786**
Comprehensive income for the accounting period					
Net profit for the previous accounting period	-	-	-	-	-
Other	-	-	-	-	-
Net profit for the current accounting period	-	-	-	801	801
	-	**-**	**-**	**801**	**801**
Transactions with the Company owners recorded directly in equity					
Valuation of incentive program	-	-	1 005	-	1 005
	-	**-**	**1 005**	**-**	**1 005**
Equity as at Mar 31 2017	**361**	**124 621**	**4 175**	**42 435**	**171 592**

	Share capital	Supple-mentary capital	Incentive program valuation capital	Retained earnings	Total equity
Equity as at Jan 01 2016	**346**	**84 917**	**-**	**13 925**	**99 188**
Comprehensive income for the accounting period					
Net profit for the previous accounting period	-	7 533	-	(7 533)	-
Net profit for the current accounting period	-	-	-	41 634	41 634
	-	**7 533**	**-**	**34 101**	**41 634**
Transactions with the Company owners recorded directly in equity					
Issue of F series shares	15	32 171	-	-	32 186
Payment of dividend	-	-	-	(6 392)	(6 392)
Incentive program valuation	-	-	3 170	-	3 170
	15	**32 171**	**3 170**	**(6 392)**	**28 964**
Equity as at Dec 31 2016	**361**	**124 621**	**3 170**	**41 634**	**169 786**

	Share capital	Supple-mentary capital	Incentive program valuation capital	Retained earnings	Total equity
Equity as at Jan 01 2016	**346**	**84 917**	**-**	**13 925**	**99 188**
Comprehensive income for the accounting period					
Net profit for the previous accounting period	-	-	-	-	-
Net profit for the current accounting period	-	-	-	(6 060)	(6 060)
	-	**-**	**-**	**(6 060)**	**(6 060)**
Transactions with Company owners recognised directly in equity					
Contribution to issue of F series shares - not registered as at Mar 31 2016	15	33 020	-	-	33 035
Incentive program valuation	-	-	792	-	792
	15	**33 020**	**792**	**-**	**33 827**
Equity as at Mar 31 2016	**361**	**117 937**	**792**	**7 865**	**126 955**

34. Interim condensed separate cash flow statement

Cash flow from operating activity		Jan 1 2017-Mar 31 2017	Jan 1 2016-Mar 31 2016
Net profit/(loss) for the accounting period		**801**	**(6 060)**
Amortisation of property, plant and equipment		79	67
Amortisation of intangible assets		365	419
Income tax		217	(731)
Change in stocks		598	(84)
Change in trade and other receivables		(2 770)	(2 113)
Change in prepayments and accruals		715	4 926
Change in financial assets		(1 188)	127
Change in trade and other liabilities		627	4 438
Change in provisions		60	-
Change in assets and liabillities and equity - purchase of subsidiaries		-	(131)
Interest		-	-
Exchange rate differences		678	-
Net financial (revenues)/costs		3 789	-
Valuation of management option program		-	(62)
Tax paid		1 005	793
Net profit/(loss) for the accounting period		(2 234)	(991)
Other		1	(22)
		2 742	**576**
Cash flow from investment activity			
Receipts from sales of investments		-	532
Interest received		-	62
Acquisition of subsidiaries		-	(96 515)
Credits provided	35.2	(27 799)	-
Purchased of property, plant and equipment, and intangible assets		(926)	(30)
Purchase of other investments		-	(730)
Zmiana stanu zobowiązań z tyt. nabycia wartości niematerialnych		(4 764)	-
		(33 490)	**(96 680)**
Cash flow from financial activity			
Revenues from issue of debt instruments		-	47 535
Revenues from issue of shares		-	33 035
Revenues from loans taken		649	-
		649	**80 569**
Total net cash flows		**(30 098)**	**(15 535)**
Cash and cash equivalents at the beginning of the period		31 779	19 962
Cash at the end of the period		**1 681**	**4 427**

35. Selected notes to significant items of the interim condensed separate financial statement

35.1. Structure of revenues from sales

Structure by category	Jan 1 2017-Mar 31 2017	Jan 1 2016-Mar 31 2016
Revenues from sales of subscriptions (services)	11 342	12 023
Revenues from sale of equipment	3 451	2 426
	14 793	**14 449**

Territorial structure	Jan 1 2017-Mar 31 2017	Jan 1 2016-Mar 31 2016
Domestic sales	1	96
Export	14 792	14 353
	14 793	**14 449**

35.2. Financial assets

	Mar 31 2017	Dec 31 2016	Mar 31 2016
Investment certificates	31 395	30 902	49 548
Credits provided	75 348	50 643	42 477
	106 743	**81 545**	**92 025**
including long-term part	87 632	69 386	77 209
including short-term part	19 111	12 159	14 816

Credits have been classified in the category of Own receivables and credits. They are measured at amortised cost using effective interest rate. Investment certificates are measured at fair value through profit and loss.

Credits provided

	Amount of credit (in USD thousand)	Payment date	Interest rate
Credit of Mar 30 2016	11 300	29.03.2026	Stałe (6%)
Credit of Mar 30 2016	200	01.06.2026	Stałe (6%)
Credit of Sep 14 2016	200	14.09.2026	Stałe (6%)
Credit of Jan 16 2017	1 000	30.12.2020	Stałe (4%)
Credit of Mar 02 2017	5 813	30.12.2020	Stałe (4%)

Fair value of the financial assets approximates their book value.

35.3. Shares in subsidiaries

	Mar 31 2017	Dec 31 2016	Mar 31 2016
Medicalgorithmics US Holding Corporation	86 720	86 720	54 169
	86 720	**86 720**	**54 169**

35.4. Trade and other receivables

	Mar 31 2017	Dec 31 2016	Mar 31 2016
Trade receivables	6 864	4 373	8 272
Budget receivables	761	186	1 039
Other receivables	293	28 748	89
Prepayments and accruals	925	242	327
	8 843	**33 549**	**9 726**
Long-term	-	1	4
Short-term	8 843	33 548	9 722

	Mar 31 2017	Dec 31 2016	Mar 31 2016
Trade receivables from affiliated entities	6 112	3 498	3 459
Trade receivables from other entities	953	1 088	5 159
Revaluating write-off on receivables from other entities	(201)	(213)	(347)
Total net trade receivables	**6 864**	**4 373**	**8 272**

35.5. Bond liabilities

Information concerning liabilities on account of bonds issued by the Parent Company can be found in note 18 of this financial statement.

35.6. Trade and other liabilities, prepayments and accruals, and income tax liabilities

	Mar 31 2017	Dec 31 2016	Mar 31 2016
Trade liabilities from other entities	1 535	968	4 800
Budget liabilities	308	300	225
Income tax liabilities	-	357	-
Other liabilities	2	33 237	-
Short-term prepayments and accruals	1 985	509	3 761
Long-term prepayments and accruals	550	629	-
	4 380	**36 000**	**8 786**

35.7. Contingent liabilities

The Company is a party to agreements on financing investment projects with EU funds aimed at development of the offered products and services. In case of a failure to meet the conditions of development works completion there is a risk of recovery of the granted subsidies. The obtained subsidies are secured with bills of exchange. As at the balance sheet date the aforementioned risk has been assessed as doubtful. The Parent Company is completing the works in compliance with the schedule.

The Company secures interest-bearing promissory note of MDG HoldCo subsidiary company seated in the USA, issued in favour of Medi-Lynx Monitoring, Inc. as a payment for purchase of shares in Medi-Lynx. The amount of the promissory note is USD 7,959 thousand. Its maturity date falls within the subsequent four years from the date of acquisition of shares, that is, 2017-2020.

The guarantee was issued by Medicalgorithmics S.A. up to the amount of USD 20,000 thousand.

Regulations applicable to VAT, corporate income tax, personal income tax or social security contributions are subject to frequent amendments, thereby often depriving the taxpayers of a possibility to refer to well established regulations or legal precedents. The effective regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between government bodies and companies. Tax and other settlements (e.g. customs or foreign currency settlements) may be subject to inspection by administrative bodies authorised to impose high penalties and fines, and any additional taxation liabilities calculated as a result must be paid with interest. These circumstances make tax risk in Poland higher than usual tax risk in countries with more developed tax systems. Tax settlements might be subject to control for a period of five years. Accordingly, the amounts disclosed in the financial statements may be later changed, after the taxes payable are finally determined by the taxation authorities. The Corporate Group of Companies was subject to control by tax authorities. Tax authorities have the right to control the books and accounts. They might impose additional tax charges with interest and other fines within five years from the end of the year, in which the given tax declaration was submitted. In the Management Board's opinion there were no circumstances that would lead to significant liabilities on that account.

35.8. Transactions with affiliated entities

Over the discussed period there were no transactions with affiliated entities concluded on different terms than at arm's length.

Medicalgorithmics US Holding Corporation	Mar 31 2017	Dec 31 2016	Mar 31 2016
Statement of financial position (in PLN thousand) - situation as of			
Credits provided	75 348	50 643	42 477
Shares in subsidiaries	86 720	86 720	54 169
Statement of comprehensive income (in PLN thousand)			
Interest on credits	695	1 746	-

Medi-Lynx Cardiac Monitoring LLC	Mar 31 2017	Dec 31 2016	Mar 31 2016
Statement of financial position (in PLN thousand) - situation as of			
Trade receivables	6 112	3 498	3 459
Other receivables	-	28 474	-
Statement of comprehensive income (in PLN thousand)			
Revenues from sales of goods and services	9 778	19 564*	-

**from the date of taking control*

Marek Dziubiński
President of the Management Board

Tomasz Mularczyk
Vice President of the Management Board in charge of IT

Warsaw, May 22nd 2017