

CRH Medical Corporation
522 – 999 Canada Place
Vancouver, BC
V6C 3E1

Year Ended December 31, 2009
Financial Report

Trading Information: The TSX Venture Exchange (symbol “CRM”)
For Information Contact: Dean Linden
Director, Corporate Communications
Email: Info@crhmedcorp.com
Web: www.crhmedcorp.com

For further information about CRH Medical Corporation, please visit the Company website at www.crhmedcorp.com or www.sedar.com, or email us at info@crhmedcorp.com.

CRH MEDICAL CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2009

The following discussion and analysis should be read in conjunction with CRH Medical Corporation's (the "Company" or "CRH") annual consolidated financial statements and the corresponding notes thereto for the year ended December 31, 2009. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Unless otherwise specified, all financial data is presented in United States dollars. This management discussion and analysis is as of April 27, 2010.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Information included or incorporated by reference in this report may contain forward-looking statements. This information may involve known and unknown risks, uncertainties, and other factors which may cause our actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "plan," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology. Readers are cautioned regarding statements discussing profitability; growth strategies; anticipated trends in our industry; our future financing plans; and our anticipated needs for working capital. Actual events or results may differ materially from those discussed in forward-looking statements. There can be no assurance that the looking statements on information currently forward-looking statements contained in this report will in fact occur. The Company bases its forward-available to it, and assumes no obligation to update them.

While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include:

- We may need to raise additional capital to fund future operations.
- The policies of health insurance carriers in the United States may affect the amount of revenue the Company receives.
- The Company may not successfully market its products.
- Changes in United States federal or state laws, rules, and regulations, including those governing the corporate practice of medicine, and fee splitting.
- Changes in the United States Anti-Kickback Statute and Stark Law and/or similar state laws, rules, and regulations.
- If we are unable to manage growth, we may be unable to achieve our expansion strategy.
- Our senior management has been key to our growth, and we may be adversely affected if we lose any member of our senior management.
- Economic dependence on suppliers and our contract manufacturer.
- Changes in the industry and the economy may affect the Company's business.
- Evolving regulation of corporate governance and public disclosure may result in additional corporate expenses.
- We may not be able to attract Gastroenterologists and other licensed providers to purchase and use the CRH O'Regan System.
- We may be subject to competition and technological risk which may impact the price and amount of product we can sell.
- We may not be able to retain sufficient qualified physicians to operate our Centers.
- We may be subject to product liability and medical malpractice claims, which may adversely affect our operations.
- Our business may be impacted by health care reform in the United States.
- We may not have the expertise required to expand internationally.

OVERVIEW

CRH Medical Corporation specializes in the treatment of hemorrhoids utilizing its proven treatment protocol and patented proprietary technology. CRH's single use, disposable, hemorrhoid technology is safe and highly effective in treating hemorrhoid grades I – IV. CRH employs two commercialization strategies: first, it operates Centers for Colorectal Health facilities in the United States specializing in the treatment of hemorrhoids, fissures, and colon cancer screening. The Company currently operates ten Centers geographically dispersed through the U.S. In addition, CRH distributes its hemorrhoid banding technology, treatment protocols, operational and marketing expertise as a complete, turn key package directly to its partner physicians ("Partnership Program"). The Company's goal is to establish the CRH O'Regan System as the standard for hemorrhoid treatment.

The Company has financed its cash requirements primarily from revenues generated from its Centers, sales of products under its Partnership Program, a line of credit against certain of our receivables, and share issuances. The Company's ability to realize the carrying value of its assets is dependent on successfully managing its Centers, marketing its products and services to participants in its Partnership Program, and achieving future profitable operations, the outcome of which cannot be predicted at this time. It may be necessary for the Company to raise additional funds for the continuing development of its business plan.

As a result of the current economic conditions we have experienced slower than expected growth in some of our Centers for Colorectal Health. We closed two underperforming Centers in December 2008, an additional three underperforming Centers in April 2009 and two more in May 2009. In addition, the Company has reduced fixed operating costs at its remaining Centers. The Company has increased its financial support for its Partnership Program as this program potentially presents a significant growth and profitability opportunity for the Company. All of these actions are consistent with the Company's stated goal of achieving cash flow positive operations as soon as practical.

CHANGES IN ACCOUNTING POLICIES

(a) Adoption of New Accounting Standards:

(i) Goodwill and intangible assets: During the year ended December 31, 2009, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, *Goodwill and Intangible Assets*, which replaced Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. The new standard, which applies to fiscal years beginning on or after October 1, 2008, clarifies the recognition of intangible assets, including internally generated assets. The standard reinforces the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition. The standard also provides guidance on the recognition and measurement of internally generated assets, including assets developed from research and development activities. The adoption of this standard had no impact on the Company's consolidated financial statements.

(b) Future changes in accounting policies:

(i) International Financial Reporting Standards (IFRS):

The Canadian Accounting Standards Board has announced that Canadian publicly accountable enterprises will be required to adopt IFRS effective for fiscal years beginning on or after January 1, 2011. Accordingly, the Company will adopt IFRS as the basis of preparation for its interim and annual financial statements for periods beginning on January 1, 2011 with a transition date of January 1, 2010 to allow for comparative financial information.

Although IFRS employs a conceptual framework that is similar to Canadian GAAP, differences in accounting policies will have to be addressed. In order to meet the requirement

to transition to IFRS, the Company is undertaking a project to ensure compliance with the new standards by the adoption date. The Company's IFRS project plan comprises four stages: awareness, assessment, design and implementation. The assessment stage includes a detailed analysis of the differences between IFRS and Canadian GAAP and includes an assessment of the potential impact on financial reporting, accounting policies, systems, internal controls over financial reporting and financial covenants. The design phase includes the development of a transition plan and revised accounting policies. The implementation phase includes the Company-wide distribution of the revised accounting policies, training and implementation of dual reporting systems. The current focus of the project is the identification of impacts for the opening balance sheet of the Company's operations, and finalization of the IFRS 1 transitional exemptions to be taken. The transition project is on schedule, and a timetable for developing the opening balance sheet and comparative information preparation is in place for 2010. The following list is not exhaustive and should not be regarded as complete as it is only intended to highlight areas that may have the most significant impact on the financial statements of the Company:

- Presentation of Financial Statements
- Property Plant and Equipment
- Impairment of Long Lived Assets
- Revenue Recognition
- Provisions
- Related Parties
- Leases
- Stock Based Compensation

The quantification of the impact from differences that may arise will be addressed as part of the Company's phases 2 and 3, which are ongoing. During these phases the Company will select its IFRS accounting policies, will determine which transitional exemptions will be applied, will quantify financial statement impacts and will culminate with the preparation of shell financial statements. Phase 3 also includes ongoing training, testing of the internal control environment and updated processes for controls and procedures. Phase 4 will include sustainable IFRS compliant financial data and processes for fiscal 2011 and beyond.

The International Accounting Standards Board continues to amend and add to current IFRS standards with several projects currently underway. The Company's conversion process includes monitoring actual and anticipated changes to IFRS standards and related rules and regulations and assessing the impacts of these changes on the Company and its reporting, including expected dates of when such impacts are effective.

(c) Consolidations:

In January 2009, the CICA issued Section 1582, "Business Combinations", which will replace the former guidance on business combinations. Under the new standard, the purchase price used in a business combination is based on the fair value of consideration exchanged at the date of exchange. Currently the purchase price used is based on the fair value of the consideration for a reasonable period before and after the date of acquisition is agreed upon and announced. The new standard generally requires that acquisition costs be expensed, which are currently capitalized as part of the purchase price. In addition, the new standard modified the accounting for contingent consideration and negative goodwill. Section 1582 is effective for the Company on January 1, 2011 with prospective application and early adoption permitted. Once adopted, this standard will impact the accounting treatment of future business combinations.

In January 2009, the CICA issued Sections 1601, "Consolidated Financial Statements", and 1602, "Noncontrolling Interests", which replaces existing guidance. Section 1601 establishes

standards for the preparation of consolidated financial statements and Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary subsequent to a business combination. These sections are effective for the Company on January 1, 2011 with prospective application and early adoption permitted. The adoption of these standards is not expected to have a material impact on the Company's consolidated financial statements.

SELECTED ANNUAL INFORMATION

	2009	2008	2007
Revenue:			
Clinic operations	\$ 5,200,130	\$ 6,047,590	\$ 3,023,558
Product sales	1,864,728	615,079	222,132
Total expenses and other items	9,617,205	10,599,274	6,751,465
Net loss	(2,552,347)	(3,936,605)	(3,505,775)
Net loss per share	(0.05)	(0.09)	(0.08)
Total assets	3,823,975	3,514,324	6,413,595
Total liabilities	734,493	480,994	463,946

RESULTS OF OPERATIONS

Revenue

For the year ended December 31, 2009, revenues were \$7,064,858 compared to \$6,662,669 for the year ended December 31, 2008.

Revenues from product sales for the year ended December 31, 2009 were \$1,864,728 compared to \$615,079 for the year ended December 31, 2008. The increase in product sales is the result of the Company's Partnership Program. In January of 2008, the Company initiated its Partnership Program that provides physicians not associated with our Centers with the ability to purchase our hemorrhoid banding technology, treatment protocols, marketing and operational experience. For the year ended December 31, 2009 the Company sold 25,660 units of its CRH O'Regan System compared to 6,840 for the year ended December 31, 2008. The Company trained 230 physicians in its Partnership Program for the year ended December 31, 2009, versus 133 physicians for the year ended December 31, 2008. A transfer of product to the Company's owned and operated Centers is not recognized as revenue. In the future the company expects revenue from product sales to continue to increase as more physicians are trained.

Revenues from Center operations were \$5,200,130 for the year ended December 31, 2009 compared to \$6,047,590 for the year ended December 31, 2008. For the ended December 31, 2009, the Company had 22,064 patient visits at its Centers for Colorectal Health compared to 27,348 for the year ended December 31, 2008. As a result of the economic conditions in 2009 we experienced slower than expected growth in our Centers for Colorectal Health. These difficult economic conditions coincided with a very poor financing environment throughout 2008 and into the first part of 2009. As a result, the Company did not believe it could rely on the capital markets to finance its growth and, therefore, set a goal of achieving cash flow positive operations as soon as possible. This led to the Company eliminating plans to open new Centers, and shutting down Centers that were not on a fast track toward stand-alone profitability. The Company had 10 Centers at December 31, 2009 compared to 15 at December 31, 2008. In the future the Company expects Center revenue to remain at similar levels.

Expenses

Center operations and development expenses for the year ended December 31, 2009 were \$5,970,044 compared to \$7,668,011 for the year ended December 31, 2008. The decrease in Center operations and development expenses for year ended December 31, 2009 is the result of closing underperforming centers and reducing fixed operating costs at its remaining Centers. Center operations and development expenses primarily consist of the cost of operating Centers including but not limited to rent, physician salaries, staff salaries, supplies, marketing, and advertising. Center operations and development expenses also include non-cash stock based compensation totaling \$155,212 for the year ended December 31, 2009 compared to \$307,720 for the year ended December 31, 2008.

Medical product expenses for the year ended December 31, 2009 were \$1,066,739 compared to \$600,337 for the year ended December 31, 2008. The increase in Medical product expenses is a result of the Company's Partnership Program initiated in January of 2008. Medical product expenses primarily include physician wages and travel associated with training, cost of product sales, cost of quality systems and programs, consulting expenses, marketing, business development and legal expenses. Medical product expenses include non-cash stock based compensation totaling \$91,773 and for the year ended December 31, 2009 compared to \$150,520 for the year ended December 31, 2008.

Corporate and other expenses for the year ended December 31, 2009 were \$1,898,811 compared to \$2,091,860 for the year ended December 31, 2008. The decrease in Corporate and other expenses relates to staff reductions and reduction of other corporate expenses that resulted from the Company's change in strategy to focus more on the Partnership Program and less on growing the number of Centers. Corporate and other expenses include non-cash stock based compensation totaling \$463,522 for the year ended December 31, 2009 compared to \$494,332 for the year ended December 31, 2008.

Operating income and loss

For the year ended December 31, 2009 loss from operations was \$2,209,906 compared to \$3,985,894 for the year ended December 31, 2008.

Operating losses from Center operations for the year ended December 31, 2009 were \$990,506 compared to \$1,802,098 for the year ended December 31, 2008. Although Center revenue decreased for the year ended December 31, 2009 as compared to the year ended December 31, 2008 our expense management strategies have provided larger decreases in Center related expenses significantly reducing Center operating loss. In the future, the Company operating losses from our Centers to decrease as a result expense management.

For the year ended December 31, 2009 the sale of medical products generated operating income of \$733,213 compared to a loss of \$11,316 for the year ended December 31, 2008. The increase in medical product operating income is a direct result of increased product sales. As products sales continue to increase the Company expects medical product operating income to increase both in terms of total dollars and percentage of product revenue.

Other items

The Company recognized interest income of \$nil for the year ended December 31, 2009 compared to \$52,074 for the year ended December 31, 2008. For the year ended December 31, 2009 the Company did not invest funds but rather retained the funds in our operating accounts where they are fully insured and used earned credits to reduce our banking fees.

For the year ended December 31, 2009, the Company recognized a foreign exchange loss of \$19,979 compared to a foreign exchange loss of \$2,785 for the year ended December 31, 2008. The foreign exchange loss is a direct result of the decrease in the value of the Company's Canadian dollar investments as a result of changes in the exchange rate. The exchange rate at December 31, 2009 is

\$1.051 Canadian dollars to U.S. dollars compared to an exchange rate of \$1.218 at December 31, 2008. The Company maintains a small percentage of funds in Canadian dollars as some of its corporate and other expenses are incurred in Canadian dollars.

For the year ended December 31, 2009, the Company recognized an impairment of asset charge of \$322,462 related to the Company's Fecal Occult Blood Test Intellectual Property. As at December 31, 2009 the Company determined that the net present value of the cost to design, develop, manufacture, distribute and sell or license a product or products with this technology did not support the net book value of this asset. As a result, an impairment charge of \$322,462, representing 100% of the net book value of this asset was recognized.

Net Loss

For the year ended December 31, 2009, the Company incurred a net loss of \$2,552,347 (\$0.05 per share) compared to a loss of \$3,936,605 (\$0.09 per share) for the year ended December 31, 2008.

SUMMARY OF QUARTERLY RESULTS

With the exception of the quarters ending March 31, 2008 and June 30, 2008 the quarterly results below were not reviewed by the Company's auditors.

Quarter ending	Center operations revenue	Product sales revenue	Total revenue	Total expenses and other items	Loss for the period	Net loss per share (basic & diluted)
Mar. 31, 2008	\$1,293,568	\$ 53,874	\$1,347,442	\$ 2,306,180	\$ (958,738)	\$ (0.02)
June 30, 2008	\$1,504,072	\$ 149,819	\$1,653,891	\$ 2,751,864	\$ (1,097,973)	\$ (0.03)
Sept. 30, 2008	\$1,789,970	\$ 167,672	\$1,957,642	\$ 2,950,853	\$ (993,211)	\$ (0.02)
Dec. 31, 2008	\$1,459,980	\$ 243,714	\$1,703,694	\$ 2,590,377	\$ (888,682)	\$ (0.02)
Mar. 31, 2009	\$1,407,197	\$ 328,693	\$1,735,890	\$ 2,440,898	\$ (705,008)	\$ (0.02)
June 30, 2009	\$1,366,378	\$ 486,971	\$1,853,349	\$ 2,217,135	\$ (363,786)	\$ (0.00)
Sept. 30, 2009	\$1,281,376	\$ 473,985	\$1,755,361	\$ 2,185,220	\$ (429,859)	\$ (0.01)
Dec. 31, 2009	\$1,145,179	\$ 575,079	\$ 1,720,258	\$ 2,773,952	\$ (1,053,694)	\$ (0.02)

Quarter-to-quarter variability and the trends in revenue are driven primarily by the following factors:

- During the first quarter of 2008, the Company initiated its Partnership Program that provides physicians not currently associated with our Centers with the ability to purchase a license to our hemorrhoid banding technology, treatment protocols, marketing and operational experience.
- Center operations revenue for the first quarter of 2008 includes a negative adjustment for a change in estimate related to contract adjustments of approximately \$40,000.
- First quarter of 2008, the Company opened three additional Centers in Miami, Denver, and Pembroke Pines.
- Second quarter of 2008, the Company opened four additional Centers in Chicago, New York, Dallas and San Diego.
- Third quarter of 2008, the Company opened two additional Centers in New Orleans and Virginia.

- Fourth quarter of 2008, the Company closed two Centers, one in Chicago and one in Atlanta. Additionally the Company determined that certain contractual adjustments with third party payers were not properly realized during 2008 resulting in a one time adjustment decreasing revenue by \$160,000.
- First quarter of 2009, the Company announced the closure of three underperforming Centers in Miami Beach, FL, New Orleans, LA, and Bayshore, NY. The Company discontinued advertising in these markets in mid – February 2009 and closed the Centers in mid April 2009.
- Second quarter of 2009, the Company closed two underperforming Centers in Falls Church, Virginia and San Diego, California.
- Third quarter of 2009, the Company experienced seasonality in its product sales revenue as a result of partner physicians taking summer vacations.
- During the fourth quarter of 2009 the Company recorded an impairment of asset charge totaling \$322,462 related to Fecal Occult Blood Test intellectual property and approximately \$200,000 in additional operating expenses related to adjustments to depreciation, bad debt, and the Company's vacation accrual.

The losses reported are primarily the result of the cost to operate the Centers in addition to corporate and other expenses. The Company expects losses to continue to decrease as product sales increase as a result of our Partnership Program, Center related operational fixed expense reduction programs, closing underperforming Centers, and other expense reduction initiatives.

FOURTH QUARTER

Total revenue for the quarter ended December 31, 2009 increased 1% to \$1,720,258 from \$1,703,694 for the same period in 2008.

Center operations revenue for the quarter ended December 31, 2009 decreased to \$1,145,179 from \$1,459,980 for the same period in 2008, a decrease of 22%. The decrease was largely due to the decrease in the number of Centers in operation in the fourth quarter of 2009 compared to the same period in 2008.

Product sales revenue for the quarter ended December 31, 2009 increased 136% to \$575,079 from \$243,714 for the same period in 2008. The increase was primarily due to the success of the Company's Partnership Program that provides physicians not associated with our Centers with the ability to purchase our hemorrhoid banding technology, treatment protocols, marketing and operational experience.

Total expenses and other items for the quarter ended December 31, 2009 increased to \$2,773,952 from \$2,590,377 for the same period in 2008, an increase of 7%. This increase is primarily due to an impairment of asset charge totaling \$322,462 related to Fecal Occult Blood Test intellectual property

Total assets as at December 31, 2009 increased to \$3,823,975 from \$3,514,324 as at December 31, 2008, an increase of 9%. This increase is the primarily the result of the change in cash and cash equivalents from \$239,337 at December 31, 2008 to \$1,672,512 at December 31, 2009. This change is offset by a decrease in receivables of \$463,262 and a decrease in intellectual property of \$402,987.

LIQUIDITY

As at December 31, 2009, the Company had \$1,672,512 in cash and cash equivalents compared to \$239,337 at the end of 2008. At December 31, 2009, working capital was \$2,239,979 compared to working capital of \$1,605,473 as at December 31, 2008.

The Company has financed its operations primarily from revenues generated from its Centers, sales of products under its Partner Program, a line of credit against certain of our account receivables, and through equity financings. As of December 31, 2009, the Company has raised approximately \$17 million from the sale and issuance of equity securities. The Company has incurred losses to date and as at December 31, 2009 had an accumulated deficit of \$17,811,227.

As at December 31, 2009, the Company had the following material contractual obligations:

	Total	< 1 year	1 – 3 years	4 – 5 years	> 5 years
Leases	\$ 850,043	\$ 518,666	\$ 331,377	\$ nil	\$ nil
Total	\$ 850,043	\$ 518,666	\$ 331,377	\$ nil	\$ nil

CAPITAL RESOURCES

During the year ended December 31, 2009, the Company issued 345,000 common shares on the exercise of 345,000 options for gross proceeds of \$114,570. Additionally the Company issued 27,287 common shares on the exercise of 27,287 Agent Warrants for gross proceeds of \$19,500.

On April 7, 2009, the Company closed a private placement financing for gross proceeds of \$1.86 million, consisting of 2,948,719 units at a price of CAD\$0.78 for each unit, before share issuance costs of approximately \$95,000, for net proceeds of approximately \$1.8 million. Each unit consists of one common share and one common share purchase warrant. Each full warrant is exercisable for one common share at a price of CAD\$1.00 per share. The warrants may be exercised through April 6, 2012, except that if over a period of 20 consecutive trading days between August 7, 2009 and April 6, 2012, the daily average trading price of the common shares exceeds \$2.50 on each of those 20 consecutive days, the Company may give notice in writing to the Warrant holders that the Warrants shall expire on the 20th day following the giving of such notice unless exercised by the holders prior to such date.

The Company's annual consolidated financial statements were prepared assuming that the Company will continue as a going concern. The Company has sustained continuing losses since its formation and at December 31, 2009, had a deficit of \$17,811,227 and incurred negative cash flows from operations of \$290,161 and \$3,343,427 for the years ended December 31, 2009 and 2008, respectively. These conditions raise substantial doubt about the Company's ability to continue as a going concern. On April 7, 2009, the Company closed a private placement financing with net proceeds totaling approximately \$1.8 million. Additional financing may be required in the future to fund operations until the Company is profitable. There is no assurance that such funding will be available or obtained on favorable terms. The Company's annual consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern..

OUTSTANDING SHARE CAPITAL

As at December 31, 2009, there were 48,405,967 common shares issued and outstanding for a total of \$16,873,657 in share capital.

As at December 31, 2009, there were 4,376,188 options outstanding (of which 2,048,691 were exercisable) into common shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of \$1.76 per share, and 564,612 common shares reserved for future grant or issuance under the Company's stock option plan.

As at April 27, 2010 there were 48,505,540 common shares issued and outstanding for a total of \$16,971,923 in share capital, there are 4,451,000 options outstanding (of which 2,388,530 were exercisable) into common shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of \$1.86 per share and 489,800 common shares reserved for future grant or issuance under the Company's stock option plan.

OFF BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

The Company paid or accrued fees of \$41,449 (2008 - \$29,000) to Directors of the Company. Additionally the Company made product sales totaling \$63,701 (2008 - \$76,455) to two companies owned or controlled by two of the Company's Directors. These transactions are measured at the exchange amount being the amount of consideration established and agreed to by the related parties.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements. We constantly evaluate these estimates and assumptions.

We base our estimates and assumptions on past experience and other factors that are deemed reasonable under the circumstances. This involves varying degrees of judgment and uncertainty, thus the amounts currently reported in the financial statements could prove to be inaccurate in the future.

We consider the estimates and assumptions described in this section to be an important part in understanding the financial statements. These estimates and assumptions are subject to change, as they rely heavily on management's judgment and are based on factors that are inherently uncertain.

(a) Revenue recognition – Center operations:

Center operations revenue consists primarily of patient revenues and is recognized as services are rendered. Patient service revenue is reported net of provisions for contractual allowances from third party payers and patients. The Company has agreements with third-party payers that provide for payments to the Company at amounts different from its established billing rates. The differences between the estimated program reimbursement rates and the standard billing rates are accounted for as contractual adjustments, which are deducted from gross revenues to arrive at net operating revenues. Retroactive adjustments, if any, are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Accounts receivable resulting from such payment arrangements are recorded net of contractual allowances.

(b) Accounts receivable and allowance for doubtful accounts:

The Company's accounts receivable are related to providing healthcare services to patients and the sale of product directly to physicians. Collection of these accounts receivable is the Company's primary source of cash and is critical to its operating performance. The Company's

primary collection risks relate patient deductibles, co-payments and self-insured amounts owed by the patient. The Company's general policy is to verify insurance coverage prior to treatment of a patient at the Company's centers. The Company's estimate for the allowance for doubtful accounts is calculated historical experiences collection experience.

The Company believes that it collects substantially all of its receivables related to providing healthcare to patients, net of contractual allowances and from the sale of product directly to physicians. To date, the Company believes there has not been a material difference between bad debt allowances and the ultimate historical collection rates on accounts receivables.

The Company reviews its overall bad debts reserve for adequacy by monitoring historical cash collections as a percentage of net revenue.

Uncollected accounts are written off when management determines that the balance is uncollectible.

(c) Impairment of long-lived assets:

The Company monitors the recoverability of long-lived assets based on estimates using factors such as expected future asset utilization, economic outlook and future cash flows expected to result from the use of the related assets or be realized on sale. The Company recognizes an impairment loss if the projected undiscounted aggregate future cash flows are less than the carrying amount. The amount of impairment charge, if any, is defined as the excess of the carrying value of the asset over its fair value.

For the year ended December 31, 2009, the Company recognized an impairment of asset charge of \$322,462 related to the Company's Fecal Occult Blood Test intellectual property. As at December 31, 2009 the Company determined that the net present value of the cost to design, develop, manufacture, distribute and sell or license a product or products with this technology did not support the net book value of this asset. As a result, an impairment charge of \$322,462, representing 100% of the net book value of this asset was recognized.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities.

It is management's opinion that the Company is not exposed to significant interest or currency risk arising from these financial instruments. Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company is exposed to credit risk only with respect to uncertainties as to the timing and amount of collectability of accounts receivable. Please see previous section for a more detailed discussion of our accounts receivable. The Company mitigates credit risk through standard credit and reference checks. The fair value of these financial instruments approximates their carrying values.

LEGAL PROCEEDINGS

The Company is a party to a variety of agreements in the ordinary course of business under which it may be obligated to indemnify third parties with respect to certain matters. These obligations include, but are not limited to contracts entered into with physicians where the Company agrees, under certain circumstances, to indemnify a third party, against losses arising from matters including but not limited to medical malpractice and product liability. The impact of any such future claims, if made, on future financial results is not subject to reasonable estimation because considerable uncertainty exists as to final outcome of these potential claims.

Consolidated Financial Statements
(Expressed in United States dollars)

CRH MEDICAL CORPORATION

Years ended December 31, 2009 and 2008

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of CRH Medical Corporation are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and where appropriate, reflect management's best estimates and assumptions based upon information available at the time that these estimates and assumptions were made.

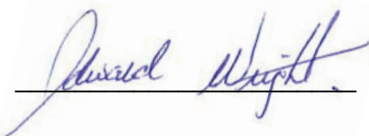
Management is responsible for establishing and maintaining a system of internal controls over financial reporting designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors exercises this responsibility principally through the Audit Committee. The Audit Committee consists of directors not involved in the daily operations of the Company. The Audit Committee is responsible for engaging the external auditor, and meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.

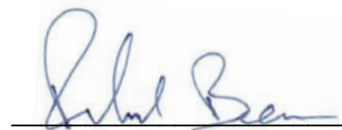
The Company's external auditors, who are appointed by the shareholders, conducted an independent audit in accordance with Canadian generally accepted auditing standards and express their opinion thereon.

April 16, 2010

/s/Edward Wright
Chief Executive Officer

Handwritten signature of Edward Wright in blue ink, written over a horizontal line.

/s/Richard Bear
Chief Financial Officer

Handwritten signature of Richard Bear in blue ink, written over a horizontal line.



KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of CRH Medical Corporation as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada
April 16, 2010

CRH MEDICAL CORPORATION

Consolidated Balance Sheets
(Expressed in United States dollars)

December 31, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,672,512	\$ 239,337
Accounts receivable, less allowance for doubtful accounts of \$349,827 (2008 - \$481,363)	1,042,091	1,505,353
Inventory	78,275	49,490
Prepaid expenses and deposits	165,466	234,984
	<u>2,958,344</u>	<u>2,029,164</u>
Property and equipment (note 5)	597,264	813,806
Intellectual property (note 6)	268,367	671,354
	<u>\$ 3,823,975</u>	<u>\$ 3,514,324</u>

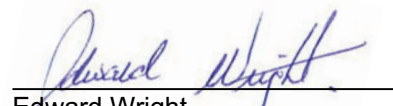
Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 677,189	\$ 257,265
Loan payable (note 12)	-	125,000
Deferred leasehold inducements	41,426	41,426
	<u>718,615</u>	<u>423,691</u>
Deferred leasehold inducements	15,878	57,303
Shareholders' equity:		
Share capital (note 7)	16,873,657	15,022,822
Contributed surplus (note 7)	4,093,824	3,336,160
Accumulated other comprehensive loss	(66,772)	(66,772)
Deficit	(17,811,227)	(15,258,880)
	<u>3,089,482</u>	<u>3,033,330</u>
	<u>\$ 3,823,975</u>	<u>\$ 3,514,324</u>

Going concern (note 2)
Commitments and contingencies (note 11)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Edward Wright Director



Anthony Holler Director

CRH MEDICAL CORPORATION

Consolidated Statements of Operations, Comprehensive Loss and Deficit
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

	2009	2008
Revenue:		
Center operations	\$ 5,200,130	\$ 6,047,590
Product sales	1,864,728	615,079
	<u>7,064,858</u>	<u>6,662,669</u>
Expenses:		
Center operations and development	5,970,044	7,668,011
Medical products	1,066,739	600,337
Corporate and other	1,898,811	2,091,860
Depreciation and amortization	339,170	288,355
	<u>9,274,764</u>	<u>10,648,563</u>
Operating loss	(2,209,906)	(3,985,894)
Other items:		
Interest income	-	52,074
Foreign exchange loss	(19,979)	(2,785)
Impairment of intellectual property	(322,462)	-
	<u>(342,441)</u>	<u>49,289</u>
Net loss and comprehensive loss	(2,552,347)	(3,936,605)
Deficit, beginning of year	(15,258,880)	(11,322,275)
Deficit, end of year	<u>\$ (17,811,227)</u>	<u>\$ (15,258,880)</u>
Basic and diluted loss per share	<u>\$ (0.05)</u>	<u>\$ (0.09)</u>
Weighted average shares outstanding	<u>47,486,858</u>	<u>44,865,293</u>

See accompanying notes to consolidated financial statements.

CRH MEDICAL CORPORATION

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

Years ended December 31, 2009 and 2008

	2009	2008
Cash provided by (used in):		
Operations:		
Net loss	\$ (2,552,347)	\$ (3,936,605)
Items not involving cash:		
Depreciation and amortization	339,170	288,355
Impairment of intellectual property	322,462	-
Foreign exchange gain (loss)	7,928	(18,060)
Amortization of deferred leasehold inducements	(41,800)	(41,426)
Stock-based compensation	710,507	952,572
Adjustment to reconcile net loss to net cash used in operating activities:		
Accounts receivable	463,262	(530,063)
Inventory	(28,785)	(18,774)
Prepaid expenses and deposits	69,518	27,100
Accounts payable and accrued liabilities	419,924	(66,526)
	(290,161)	(3,343,427)
Financing:		
Proceeds from loan	225,000	125,000
Repayment of loan	(350,000)	-
Proceeds from issuance of common share and warrants net of issuance cost	1,763,923	-
Proceeds from exercise of warrants	19,500	-
Proceeds from exercise of stock options	114,570	67,714
	1,772,993	192,714
Investments:		
Purchase of property and equipment	(41,729)	(147,019)
Intellectual property	-	(12,809)
	(41,729)	(159,828)
Foreign exchange gain (loss) on cash and cash equivalents	(7,928)	18,060
Increase (decrease) in cash and cash equivalents	1,433,175	(3,292,481)
Cash and cash equivalents, beginning of year	239,337	3,531,818
Cash and cash equivalents, end of year	\$ 1,672,512	\$ 239,337
Supplementary cash flow information:		
Interest received	\$ -	\$ 52,074
Non-cash financing activities:		
Transfer from contributed surplus for options exercised	71,164	22,036

See accompanying notes to consolidated financial statements.

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

1. Nature of operations and future operations:

CRH Medical Corporation (CRH or the Company) was incorporated on April 21, 2001 under the Company Act of the Province of British Columbia and specializes in the treatment of hemorrhoids utilizing its treatment protocol and patented proprietary technology.

2. Going concern:

The Company has financed its cash requirements primarily from share issuances. The Company's ability to realize the carrying value of its assets is dependent on successfully marketing its products and achieving future profitable operations, the outcome of which cannot be predicted at this time.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has sustained continuing losses since its formation and at December 31, 2009 had a deficit of \$17,811,227, and used cash in operations of \$290,161 and \$3,343,427 for the years ended December 31, 2009 and 2008, respectively. These conditions raise substantial doubt about the Company's ability to continue as a going concern. On April 7, 2009, the Company closed a private placement financing with net proceeds totaling approximately \$1.8 million (note 7(b)). Additional financing may be required in the future to fund operations until the Company is profitable. There is no assurance that such funding will be available or obtained on favorable terms. These consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern.

3. Significant accounting policies:

(a) Principles of consolidation:

The financial statements of entities which are controlled by the Company through voting equity interests, referred to as subsidiaries, are consolidated. Entities which are not controlled but over which the Company has the ability to exercise significant influence, are accounted for using the equity method. Investments in other entities are accounted for using the cost method. Variable interest entities (VIEs) are entities in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are consolidated by the Company when it is determined that it will, as the primary beneficiary, absorb the majority of the VIEs' expected losses and/or expected residual returns.

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

3. Significant accounting policies (continued):

(a) Principles of consolidation (continued):

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, CRH Medical Products Corporation, Cryo-Genomics Ltd., Colorectal Health Clinics Corporation, CRH Clinic of Illinois Inc., CRH Clinic of Beverly Hills Inc., CRH Clinic of San Francisco Inc., CRH Clinic of Atlanta Inc., CRH Clinic of New York Inc., CRH Clinic of Nevada Inc., CRH Clinic of Washington, Inc., CRH Clinic of Colorado, Inc., CRH Clinic of Florida, Inc., CRH Clinic of Texas, Inc., CRH Clinic of Idaho, Inc., CRH Clinic of Indiana, Inc., CRH Clinic of Louisiana, Inc., CRH Clinic of Maryland, Inc., CRH Clinic of New Jersey, Inc., CRH Clinic of Ohio, Inc., CRH Clinic of Virginia, Inc., CRH Clinic of Michigan, Inc., and CRH Clinic of Wisconsin, Inc. These consolidated financial statements also include the accounts of the following entities, which are considered to be VIEs: H. Hakhamimi, M.D., Inc., Thomas F. Drost, M.D., Ltd. (Illinois), Carolyn E. Million, M.D., Professional Corporation, Thomas F. Drost, M.D., P.C. (New York), Goldman Inc., Colorado CRH Surgeons PC, Texas CRH Surgeon PA, Wisconsin CRH Surgeons, P.C. Indiana CRH Surgeons, P.C., New Jersey CRH Surgeons, P.C. and Idaho CRH Surgeons, P.C. Material inter-company accounts and transactions have been eliminated on consolidation.

(b) Use of estimates:

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the consolidated financial statements. Significant areas requiring the use of estimates relate to the assessment of recoverability or impairment of accounts receivable, property and equipment, and intellectual property, and the estimates required in recording revenue and stock-based compensation. The reported amounts and note disclosure are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned course of action. Actual results could differ from those estimates.

(c) Cash equivalents:

The Company considers all highly liquid investments with an original maturity of 90 days or less, when acquired, to be cash equivalents, which are carried at fair value and are classified as held for trading.

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

3. Significant accounting policies (continued):

(d) Accounts receivable and allowance for doubtful accounts:

The Company's accounts receivable are related to providing healthcare services to patients and the sale of product directly to physicians. Collection of these accounts receivable is the Company's primary source of cash and is critical to its operating performance. The Company's primary collection risks relate patient deductibles, co-payments and self-insured amounts owed by the patient. The Company's general policy is to verify insurance coverage prior to treatment of a patient at the Company's centers. The Company's estimate for the allowance for doubtful accounts is calculated historical experiences collection experience.

The Company believes that it collects substantially all of its receivables related to providing healthcare to patients, net of contractual allowances and from the sale of product directly to physicians. To date, the Company believes there has not been a material difference between bad debt allowances and the ultimate historical collection rates on accounts receivables.

The Company reviews its overall bad debts reserve for adequacy by monitoring historical cash collections as a percentage of net revenue.

Uncollected accounts are written off when management determines that the balance is uncollectible.

(e) Inventory:

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted average method.

(f) Property and equipment:

Property and equipment are recorded at original cost plus any costs of betterment less accumulated amortization and excludes any assets not in current use. Amortization is calculated at the following annual amortization rates and methods:

Asset	Basis	Rate
Computer and office equipment	declining balance	30%
Computer software	declining balance	100%
Furniture and equipment	declining balance	20%
Leasehold improvements	straight-line	5 years
Injection mold	straight-line	5 years

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

3. Significant accounting policies (continued):

(g) Intellectual property:

Intellectual property, consisting of patents, is recorded at historical cost, including legal costs involved in expanding the countries in which the patents are recognized to the extent expected cash flows from those countries exceed these costs over the amortization period. The accumulated costs are amortized over the estimated remaining life of the property.

(h) Impairment of long-lived assets:

The Company monitors the recoverability of property, equipment and intellectual property based on estimates using factors such as expected future asset utilization, economic outlook and future cash flows expected to result from the use of the related assets or be realized on sale. The Company recognizes an impairment loss if the projected undiscounted aggregate future cash flows are less than the carrying amount. The amount of impairment charge, if any, is defined as the excess of the carrying value of the asset over its fair value.

(i) Deferred leasehold inducements:

Leasehold inducements received for leasehold improvements are deferred with the benefit of the lease inducement accounted for as a reduction of rental expense over the initial term of the lease, resulting in a constant rental charge over the term of the lease.

(j) Revenue recognition:

(i) Center operations:

Center operations revenue consists primarily of patient revenues and is recognized as services are rendered. Patient service revenue is reported net of estimated provisions for contractual allowances from third-party payers and patients. The Company has agreements with third-party payers that provide for payments to the Company at amounts different from its established billing rates. The differences between the estimated program reimbursement rates and the standard billing rates are accounted for as contractual adjustments, which are deducted from gross revenues to arrive at net operating revenues. Differences in final settlements, if any, are recorded when the amounts are determined and accounts receivable resulting from such payment arrangements are recorded net of contractual allowances.

(ii) Product sales:

The Company recognizes revenue from product sales at the time the product is shipped, which is when title passes to the customer, and when all significant contractual obligations have been satisfied and collection is reasonably assured.

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

3. Significant accounting policies (continued):

(k) Foreign currency translation:

Monetary assets and liabilities are translated at year-end exchange rates, and other assets and liabilities have been translated at the rates prevailing at the date of transaction. Revenue and expense items, except for amortization, are translated at the rate of exchange on the date of the transaction. Amortization is converted using the rates prevailing at the dates of acquisition. Gains and losses from foreign currency translation are included in the consolidated statements of operations.

(l) Loss per share:

Loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period.

Diluted loss per share is equivalent to basis loss per share as the outstanding options and warrants are anti-dilutive.

(m) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases ("temporary differences") and loss carry-forwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences and loss carry-forwards are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is generally recognized in income in the period that includes the date of substantive enactment. Future tax assets are reduced by a valuation allowance to the extent that their realization is not considered to be more likely than not.

(n) Stock-based compensation:

The Company grants stock options to executive officers and directors, employees and consultants pursuant to its stock option plan. The Company uses the fair value method of accounting for all stock-based awards granted, modified or settled during the period. Compensation expense is recorded based on the fair value of the award at the grant date, amortized over the vesting period.

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

4. Changes in accounting policies:

(a) Adoption of new accounting standards:

(i) Goodwill and intangible assets:

During the year ended December 31, 2009, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, *Goodwill and Intangible Assets*, which replaced Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. The new standard, which applies to fiscal years beginning on or after October 1, 2008, clarifies the recognition of intangible assets, including internally generated assets. The standard reinforces the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition. The standard also provides guidance on the recognition and measurement of internally generated assets, including assets developed from research and development activities. The adoption of this standard had no impact on the Company's consolidated financial statements.

(b) Future changes in accounting policies:

(i) International Financial Reporting Standards:

On February 13, 2008, the Accounting Standards Board confirmed that the use of International Financial Reporting Standards (IFRS) will be required, for fiscal years beginning on or after January 1, 2011, for publicly accountable profit-oriented enterprises. After that date, IFRS will replace Canadian GAAP for those enterprises. The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

(ii) Consolidations:

In January 2009, the CICA issued Section 1582, *Business Combinations*, which will replace the former guidance on business combinations. Under the new standard, the purchase price used in a business combination is based on the fair value of consideration exchanged at the date of exchange. Currently the purchase price used is based on the fair value of the consideration for a reasonable period before and after the date of acquisition is agreed upon and announced. The new standard generally requires that acquisition costs be expensed, which are currently capitalized as part of the purchase price. In addition, the new standard modified the accounting for contingent consideration and negative goodwill. Section 1582 is effective for the Company on January 1, 2011 with prospective application and early adoption permitted. Once adopted, this standard will impact the accounting treatment of future business combinations.

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

4. Changes in accounting policies (continued):

(b) Future changes in accounting policies (continued):

(ii) Consolidations:

In January 2009, the CICA issued Sections 1601, *Consolidated Financial Statement*, and 1602, *Non-controlling Interests*, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary subsequent to a business combination. These sections are effective for the Company on January 1, 2011 with prospective application and early adoption permitted. The adoption of these standards is not expected to have a material impact on the Company's consolidated financial statements.

5. Property and equipment:

2009	Cost	Accumulated amortization	Net book value
Computer and office equipment	\$ 151,814	\$ 104,748	\$ 46,066
Furniture and equipment	205,405	115,594	89,811
Leasehold improvements	955,089	601,859	353,230
Injection mold	282,172	174,015	108,157
	<u>\$ 1,593,480</u>	<u>\$ 996,216</u>	<u>\$ 597,264</u>

2008	Cost	Accumulated amortization	Net book value
Computer and office equipment	\$ 147,029	\$ 85,443	\$ 61,586
Furniture and equipment	205,405	93,080	112,325
Leasehold improvements	952,777	416,712	536,065
Injection mold	246,540	142,710	103,830
	<u>\$ 1,551,751</u>	<u>\$ 737,945</u>	<u>\$ 813,806</u>

Depreciation for the year ended December 31, 2009 was \$258,271 (2008 - \$212,607).

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

6. Intellectual property:

2009	Cost	Accumulated amortization	Net book value
O'Regan ligator patents	\$ 475,251	\$ 206,884	\$ 268,367

2008	Cost	Accumulated amortization	Net book value
O'Regan ligator patents	\$ 477,119	\$ 175,179	\$ 301,940
FOBT US patent #1	285,821	107,608	178,213
FOBT US patent #2	285,821	94,620	191,201
	\$ 1,048,761	\$ 377,407	\$ 671,354

Amortization for the year ended December 31, 2009 was \$80,899 (2008 - \$75,748). During the year ended December 31, 2009, the Company recognized an impairment charge of \$322,462 related to the Company's Fecal Occult Blood Test intellectual property (FOBT US patent #1 and #2). As at December 31, 2009 the Company determined that the net present value of the cost to design, develop, manufacture, distribute and sell or license a product or products with this technology did not support the net book value of this asset. As a result, an impairment charge of \$322,462, representing 100% of the net book value of this asset was recognized.

7. Share capital:

(a) Authorized:

100,000,000 common shares without par value.

(b) Issued:

	Shares	Amount	Contributed surplus
Balance, December 31, 2007	44,724,251	\$ 14,933,072	\$ 2,405,624
Issued on exercise of options	215,000	89,750	(22,036)
Stock-based compensation	-	-	952,572
Balance, December 31, 2008	44,939,251	15,022,822	3,336,160
Public offering, net of issue cost (i)	3,094,429	1,629,958	133,965
Issued on exercise of options	345,000	188,421	(73,851)
Issued on exercise of warrants	27,287	32,456	(12,956)
Stock-based compensation	-	-	710,506
Balance, December 31, 2009	48,405,967	\$ 16,873,657	\$ 4,093,824

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

7. Share capital (continued):

(b) Issued (continued):

- (i) The Company closed a public offering on April 7, 2009 consisting of 2,948,719 units at a price of CAD\$0.78 for each unit, before share issuance costs of \$95,000, for net proceeds of approximately \$1.8 million.

Each Unit is comprised of one Common Share in the capital of the Company and one Common Share Purchase Warrant. Each Warrant will entitle the holder thereof to purchase one Common Share for a period of three years from the closing date of the Offering at an exercise price of CAD\$1.00 per Common Share except that the expiry date may be accelerated by the Company if the stock price maintains a trading price of \$2.50 for a specified time period. The Company follows a policy of not recording separately a value for Warrants that are included as part of a share offering, except for Warrants issued to Agents.

The Company paid the Agent a cash commission of 7% of the gross proceeds of the Offering, \$28,558 cash, and the balance by issuance of 145,710 commission Units with the same terms as the Units of the Offering. In addition, the Agent received Warrants to purchase 136,436 Units. Each Agent's Warrant will be exercisable to acquire one Unit at \$0.78 expiring 24 months after the closing date.

The Company also completed a concurrent non-brokered private placement of 220,000 Units for aggregate gross proceeds of \$138,700. The Agent did not participate in the sale of, or receive a commission on, the non-brokered Units.

The fair value of the common share Agent Commission Warrants and Agent Warrants was determined using the Black-Scholes option pricing model using the following assumptions:

	Agent Commission warrants	Agent warrants
Dividend yield	0%	0%
Expected volatility	77%	77%
Risk-free interest rate	1.41%	1.41%
Expected life in years	3.00	2.00
Fair value per warrant	\$0.47	\$0.48

The fair value of the Warrants was calculated using the Black Scholes option pricing model. The fair market value of \$133,965 was recorded as a reduction in share capital and an increase in contributed surplus.

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

7. Share capital (continued):

(c) Stock option plan:

Under the Company's Stock Option Plan, the Company may grant options to its directors, officers, consultants and eligible employees for up to 6,370,000 shares of common stock. The plan provides for the granting of stock options at the fair market value of the Company's stock at the date of grant, and the term of options range from two to five years. The Board of Directors may, in its sole discretion, determine the time during which Options shall vest and the method of vesting. Unless the Company is or becomes a Tier 1 Issuer within the meaning of the policies of the Exchange, all Options under the Plan will be subject to vesting provisions determined by the Board of Directors, over a period of not less than 18 months, in equal portions on a quarterly basis. Options granted to consultants providing investor relations activities will vest at the end of 12 months or longer from the date of issuance.

A summary of the status of the plan as of December 31, 2009 and December 31, 2008 and changes during each period are as follows (USD amounts calculated using exchange rate at December 31, 2009):

	2009			2008		
	Shares	Weighted average exercise price		Shares	Weighted average exercise price	
		CAD	USD		CAD	USD
Outstanding, beginning of year	2,900,000	\$ 1.93	\$ 1.59	2,838,000	\$ 1.81	\$ 1.82
Issued	1,950,000	0.97	0.92	313,000	1.99	2.00
Exercised	(345,000)	0.41	0.39	(215,000)	0.32	0.24
Forfeited and expired	(128,812)	2.22	2.12	(36,000)	2.09	1.77
Outstanding, end of year	4,376,188	\$ 1.61	\$ 1.54	2,900,000	\$ 1.93	\$ 1.59

The following table summarizes information about the stock options outstanding at December 31, 2009 (USD amounts calculated using exchange rate at December 31, 2009):

Exercise price		Options outstanding			Options exercisable			
		Number of contractual options	Weighted average remaining life (years)	Weighted average exercise price USD	Weighted average exercise price CAD	Number of options	Weighted average exercise price USD	Weighted average exercise price CAD
USD	CAD							
\$0.43 - \$0.62	\$0.45 - \$0.65	1,491,188	3.61	\$0.59	\$0.62	443,315	\$0.53	\$0.56
\$1.15 - \$2.04	\$1.21 - \$2.14	1,639,000	3.38	1.80	1.89	735,813	1.71	1.80
\$2.05 - \$3.14	\$2.15 - \$3.30	1,246,000	2.07	2.35	2.46	869,563	2.43	2.55
		4,376,188	3.08	\$1.54	\$1.61	2,048,691	\$1.76	\$1.85

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

7. Share capital (continued):

(c) Stock option plan (continued):

For the year ended December 31, 2009, the Company recognized \$710,507 (2008 - \$952,572) in compensation expense as a result of stock options awarded and vested. Compensation expense is recorded in the consolidated statement of operations and is allocated to center operations and development, medical products and corporate expenses on the same basis as the allocations of cash compensation.

The weighted average fair value of stock options granted during the years ended December 31, 2009 and December 31, 2008 was \$0.52 and \$1.32 per share respectively. The estimated fair value of the stock options granted was determined using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2009	2008
Expected life of options	4 years	4 years
Risk-free interest rate	1.7%	3.2%
Dividend yield	0%	0%
Volatility	87.3%	90.5%

There is no dividend yield because the Company does not pay, and does not plan to pay cash dividends on its common shares. The expected stock price volatility is based on the historical volatility of the Company's average monthly stock closing prices over a period equal to the expected life of each option grant. The risk-free interest rate is based on yields from Canadian Government Bond yields with a term equal to the expected term of the options being valued. The expected life of options represents the period of time that the options are expected to be outstanding based on historical data of option holder exercise and termination behavior. The Company's stock-based compensation expense is reduced by actual forfeitures when they occur.

(d) Common Share Purchase Warrants:

USD amounts calculated using exchange rate at December 31, 2009.

	Number of warrants	Weighted average exercise price	
		CAD	USD
Outstanding, December 31, 2008	-	\$ -	\$ -
Issued	2,948,719	1.00	0.95
Exercised	-	-	-
Outstanding, December 31, 2009	2,948,719	\$ 1.00	\$ 0.95

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

7. Share capital (continued):

(d) Common Share Purchase Warrants (continued):

The Common Share Purchase Warrants were issued as part of the financing completed in 2009 (note 7(b)(i)). All warrants are granted in Canadian dollars and have been translated to U.S. dollars at the year end exchange rate.

(e) Agent Warrants:

	Number of warrants	Weighted average exercise price	
		CAD	USD
Outstanding, December 31, 2008	-	\$ -	\$ -
Issued	136,436	0.78	0.74
Exercised	(27,287)	0.78	0.74
Outstanding, December 31, 2009	109,149	\$ 0.78	\$ 0.74

These Agent Warrants were filed as part of the financial in 2009 and were valued based on the Black-Scholes option pricing model (note 7(b)(i)). All warrants are granted in Canadian dollars and have been translated to U.S. dollars at the year end exchange rate.

8. Income taxes:

The reconciliation of income tax computed at statutory tax rates to income tax expense, using a 31% (2008 - 31%) statutory rate, is:

	2009	2008
Tax recovery at statutory income tax rates	\$ (404,923)	\$ (1,220,348)
Change in valuation allowance	811,927	796,898
Permanent differences and other	248,875	327,452
Tax rate differences	(655,879)	95,998
Income tax expense	\$ -	\$ -

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

8. Income taxes (continued):

Significant components of the Company's future income tax assets and liabilities are as follows:

	2009	2008
Future income tax assets:		
Non-capital losses available for future periods	\$ 4,298,914	\$ 3,775,260
Future income tax liabilities:		
Property and equipment	181,495	(8,350)
Intellectual property	(27,599)	(126,026)
	153,896	(134,376)
	4,452,810	3,640,884
Valuation allowance	4,452,810	(3,640,884)
	\$ -	\$ -

At December 31, 2009, the Company has tax losses of approximately \$8.4 million (2008 - \$7.3 million) from its Canadian operations and \$6.2 million (2008 - \$5.5 million) from its U.S. operations, available to reduce future years' income taxes. The Canadian losses expire from 2010 through 2029 and U.S. tax losses expire from 2025 to 2029.

Realization of the future income tax assets is dependent on several factors, including a presumption of future profitability, which is subject to uncertainty. Due to the Company's state of development and operations, the Company has not met the test that it is more likely than not that the future income tax assets will be realized. Accordingly, a valuation allowance has been provided, equal to the net future income tax asset. The valuation allowance is reviewed periodically and when the more likely than not criterion is met, the valuation allowance will be adjusted accordingly by a credit or charge to earnings in that period.

9. Capital disclosures:

The Company's objective in managing capital is to safeguard its ability to continue as a going concern and to sustain future development of the business. In the management of capital, the Company includes the loan payable and shareholders' equity, excluding accumulated other comprehensive loss. The Company's objective is met by retaining adequate equity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. In order to maintain or adjust its capital structure, the Company may issue new shares. The Board of Directors does not establish quantitative return on capital criteria for management. The Company is not subject to any externally imposed capital requirements and the Company's overall strategy with respect to capital management remains unchanged from the year ended December 31, 2008.

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

10. Financial instruments:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and loan payable. The fair values of these financial instruments approximate carrying value because of their short-term nature. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and other long-term liabilities are classified as other financial liabilities, which are also measured at amortized cost.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk and market risk.

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, and accounts receivable. The carrying amount of the financial assets represents the maximum credit exposure.

The Company limits its exposure to credit risk on cash and cash equivalents by placing these financial instruments with high-credit quality financial institutions and only investing in liquid, investment grade securities.

The Company has a number of individual customers and no one customer represents a concentration of credit risk.

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement within operating expenses. When a receivable balance is considered uncollectible it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

Although no single patient or physician accounts for more than 10% of the Company's consolidated revenue, approximately 58% of the Company's revenue is ultimately collected from U.S. healthcare insurance companies, including Medicare, who insure our patients. Credit risk associated with the collection of receivables from these insurance companies is considered low. A portion of our receivables is ultimately collected from individual patients who are subject to deductibles and co-insurance or where the patient has no insurance coverage. Our receivables from individual patients represents a more significant credit risk and we monitor individual patient amounts and follow up regularly with delinquent accounts. The Company's estimate for the allowance for doubtful accounts is based on historical collections as a percentage of net revenues.

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

10. Financial instruments (continued):

(a) Credit risk (continued):

The following table sets forth details of the age of receivables that are not overdue as well as an analysis of overdue amounts and related allowance for the doubtful accounts.

Total accounts receivable	\$	1,391,918
Less: allowance for doubtful accounts		349,827
Total accounts receivable, net	\$	1,042,091
Of which:		
Current	\$	517,760
Less than 60 days		161,552
Less than 90 days		105,310
Less than 120 days		84,873
120 days or greater		522,423
Total accounts receivable	\$	1,391,918

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2009	2008
Cash and cash equivalents	\$ 1,672,512	\$ 239,337
Accounts receivable	1,042,091	1,505,353
	\$ 2,714,603	\$ 1,744,690
Continuity of allowance for bad debts:		
Balance, January 1, 2009		\$ 481,363
Write-offs		(470,767)
Bad debts		339,231
Total allowance for bad debts		\$ 349,827

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by monitoring forecasted and actual cash flows, as well as anticipated investing and financial activities. The majority of the Company's financial liabilities, except the loan payable, are due within ninety days. The Company does not have long-term financial liabilities.

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

10. Financial instruments (continued):

(c) Market risk:

Market risk is the risk that changes in market prices, such as foreign currency exchange rates and interest rates will affect the Company's income or the value of the financial instruments held.

(i) Foreign currency risk:

The majority of the Company's sales and purchases are made in U.S. dollars. However, certain of the Company's revenues and expenses are denominated in Canadian dollars. Foreign currency risk reflects the risk that the Company's earnings will be impacted by fluctuations in exchange rates. During the year ended December 31, 2009 approximately 1.2% of the Company's sales was made in Canadian dollars and approximately 16% of expenses was incurred in Canadian dollars. With all other variables held constant, a 10% point increase in the value of the Canadian dollar relative to the U.S. dollar would have reduced net loss by approximately \$135,000 for the year ended December 31, 2009. There would be an equal and opposite impact on the net loss with a 10% point decrease in the value of the Canadian dollar relative to the U.S. dollar.

At December 31, 2009, the Company has Canadian dollar denominated accounts receivable which is offset by Canadian dollar denominated accounts payable. Foreign exchange gains and losses arising from the revaluation of these balances are included in earnings. With all other variables held constant, a 10% point increase in the value of the Canadian dollar relative to the U.S. dollar would have increased net income by approximately \$8,400 at December 31, 2009 based on the net working capital position in Canadian dollars. There would be an equal and opposite impact on the net loss with a 10% point decrease in the value of the Canadian dollar relative to the U.S. dollar.

The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures and the resulting volatility of the Company's earnings. The Company manages this risk by pricing sales in U.S. dollars or the currency of the expenses being incurred, and by reducing the exposure of liabilities denominated in Canadian dollars with Canadian dollar denominated assets. The Company has not entered into any forward foreign exchange contracts.

The Company is exposed to currency risk of the following amounts at December 31, 2009:

Expressed in U.S. dollar equivalent	CAD
Cash and cash equivalents	\$ 34,985
Accounts receivable	10,483
Accounts payable and other liabilities	94,479

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

10. Financial instruments (continued):

(c) Market risk (continued):

(ii) Interest rate risk

The Company's policy is to invest cash and equivalents at floating rates of interest, in order to maintain liquidity, while achieving a satisfactory return for the Company. Fluctuations in interest rates impact the value of cash equivalents. The Company's exposure to interest rate risk is limited, as the Company does not have any interest bearing financial liabilities.

11. Commitments and contingencies:

(a) The following are the minimum payments required for the lease of premises:

2010	\$	518,666
2011		248,421
2012		77,556
2013		5,400
	\$	850,043

Rent expense for the year ended December 31, 2009 was \$630,084 (2008 - \$692,059).

(b) The Company is engaged in certain legal actions in the ordinary course of business. Management believes that the ultimate outcome of these actions will not have a material adverse effect on the Company's operating results, liquidity or financial position.

12. Loan payable:

On November 26, 2008, the Company entered into a Credit Agreement for a revolving line of credit collateralized by the Company's accounts receivable. The Agreement enabled the Company to borrow up to 50%, to a maximum of \$750,000, of the Company's qualified accounts receivable. Interest is paid monthly on amounts outstanding. In 2009, the Company borrowed an additional \$225,000 bringing the total outstanding amount to \$350,000. The \$350,000 was repaid in April 2009 with proceeds from financing described in note 7(b)(i)). The Credit Agreement expired on November 26, 2009.

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

13. Related party transactions:

The Company paid or accrued fees of \$41,449 (2008 - \$29,000) to Directors of the Company. Additionally, the company made product sales totaling \$63,701 (2008 - \$76,455) to two companies owned or controlled by two of the Company's Directors. These transactions are measured at the exchange amount being the amount of consideration established and agreed to by the related parties.

14. Segmented information:

The Company organizes its business into three operating segments: sales of medical products, Center operations, and other activities related to the public parent corporation. Transactions between reportable segments have been eliminated. The business segments are presented as follows:

2009	Medical products	Center operations and development	Corporate and other	Total
Revenue	\$ 1,864,728	\$ 5,200,130	\$ -	\$ 7,064,858
Depreciation and amortization	(64,776)	(220,592)	(53,802)	(339,170)
Stock-based compensation	(91,773)	(155,212)	(463,522)	(710,507)
Expenses	(974,966)	(5,814,832)	(1,435,289)	(8,225,087)
Foreign exchange gain (loss) and other items		-	(342,441)	(342,441)
Net loss	\$ 733,213	\$ (990,506)	\$ (2,295,054)	\$ (2,552,347)
Capital expenditures	\$ 35,632	\$ 3,784	\$ 2,313	\$ 41,729
Intellectual property	\$ 268,367	\$ -	\$ -	\$ 268,367
Property and equipment	\$ 111,188	\$ 472,378	\$ 13,698	\$ 597,264
Total assets	\$ 724,648	\$ 1,368,333	\$ 1,730,994	\$ 3,823,975

CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements
(Expressed in United States dollars)

Years ended December 31, 2009 and 2008

14. Segmented information (continued):

2008	Medical products	Center operations and development	Corporate and other	Total
Revenue	\$ 615,079	\$ 6,047,590	\$ -	\$ 6,662,669
Depreciation and amortization	(26,058)	(181,677)	(80,620)	(288,355)
Stock-based compensation	(150,520)	(307,720)	(494,332)	(952,572)
Expenses	(449,817)	(7,360,291)	(1,597,528)	(9,407,636)
Interest income	-	-	52,074	52,074
Foreign exchange gain and other income	-	-	(2,785)	(2,785)
Net loss	\$ (11,316)	\$ (1,802,098)	\$ (2,123,191)	\$ (3,936,605)
Capital expenditures	\$ 90,833	\$ 52,735	\$ 16,260	\$ 159,828
Intellectual property	\$ 301,940	\$ -	\$ 369,414	\$ 671,354
Property and equipment	\$ 106,080	\$ 693,380	\$ 14,346	\$ 813,806
Total assets	\$ 282,970	\$ 2,435,506	\$ 795,848	\$ 3,514,324

For the years ended December 31, 2009 and 2008, substantially all of the Company's revenues were generated in the United States and no customers accounted for 10% or more of total sales.

At December 31, 2009 and 2008, substantially all of the Company's property and equipment were located in the United States.

At December 31, 2009 and 2008, substantially all of the Company's intellectual property was located in Canada.

