

**CRH Medical Corporation**

Suite 522 – 999 Canada Place  
Vancouver, BC  
V6C 3E1

**December 31, 2008  
Year End Financial Statements and  
Management Discussion and Analysis**

**Trading Information:** The TSX Venture Exchange (symbol “CRM”)

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# CRH MEDICAL CORPORATION

## MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2008

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, 2008. 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 30, 2009.

### 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 forward-looking statements contained in this report will in fact occur. The Company bases its forward-looking statements on information currently 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.
- We operate in an industry that is subject to extensive federal, state, and local regulation, and changes in law and regulatory interpretations.
- 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.
- 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 expenses and continuing uncertainty.
- We may not be able to recruit and retain sufficient qualified physicians and other licensed providers.

- We may be subject to product liability and medical malpractice claims, which may adversely affect our operations.

## 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 and fissures, and colon cancer screening. The Company currently operates twelve 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 hemorrhoid technology 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 Partner 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. As a result we closed two Centers in December 2008 and an additional three Centers in April 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.

## CHANGES IN ACCOUNTING POLICIES

### (a) Adoption of new accounting standards:

On January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures* (Section 1535), Handbook Section 3862, *Financial Instruments - Disclosures* (Section 3862) and Handbook Section 3863, *Financial Instruments - Presentation* (Section 3863).

#### (i) Capital disclosures:

Section 1535 specifies the disclosure of (A) an entity's objectives, policies and processes for managing capital; (B) quantitative data about what the entity regards as capital; (C) whether the entity has complied with any capital requirements; and (D) if it has not complied, the consequences of such non-compliance.

The Company has included disclosures to comply with Section 1535 in note 9 of the consolidated financial statements.

#### (ii) Financial instruments:

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements.

Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial

instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset. The adoption of these standards did not have any impact on the classification and valuation of the Company's financial instruments. The Company has included disclosures to comply with these new Handbook Sections in note 10 to the consolidated financial statements.

(b) Future changes in accounting policies:

(i) Goodwill and intangible assets:

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, which replaced Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. Section 1000, *Financial Statement Concepts*, was also amended to provide consistency with this new standard. The new Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. The standard applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The Company is currently assessing the impact of this new accounting standard on its consolidated financial statements.

(ii) 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.

**SELECTED ANNUAL INFORMATION**

	2008	2007	2006
Sales:			
Clinic operations	\$ 6,047,590	\$ 3,023,558	\$ 557,301
Product sales	607,752	222,132	69,264
Total expenses and other items	10,591,947	6,751,465	5,626,844
Net loss	(3,936,605)	(3,505,775)	(5,000,279)
Net loss per share	(0.09)	(0.08)	(0.12)
Total assets	3,514,324	6,413,595	8,271,777
Total liabilities	480,994	463,946	473,550

**RESULTS OF OPERATIONS**

Revenue

For the year ended December 31, 2008, revenues were \$6,655,342 compared to \$3,245,690 for the year ended December 31, 2007.

Revenues from Center operations were \$6,047,590 for the year ended December 31, 2008 compared to \$3,023,558 for the year ended December 31, 2007. The increase in Center operations revenue is a

result of the increased number of Centers in operation and the number of months the Centers have been open. In 2008, the Company opened Centers in Illinois, Florida, Colorado, New York, Texas, California, Louisiana, and Virginia. For the year ended December 31, 2008, the Company had 27,348 patient visits at its Centers for Colorectal Health compared to 13,461 for the same period in 2007.

Revenues from product sales for the year ended December 31, 2008 were \$607,752 compared to \$222,132 for the year ended December 31, 2007. The increase in product sales is primarily the result of the Company's Partnership Program. In January of 2008, the Company initiated a 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, 2008 the Company sold 6,840 units of its CRH O'Regan Hemorrhoid Banding Technology compared to 1,920 for the same period in 2007. The Company trained more than 100 physicians in its Partnership Program during 2008, versus only 9 physicians in 2007. A transfer of product to the Company's owned and operated Centers is not recognized as revenue.

#### Expenses

Center operations and development expenses for the year ended December 31, 2008 were \$7,668,011 compared to \$4,959,945 for the year ended December 31, 2007. The increase in Center operations and development expenses for the year ended December 31, 2008 is the direct result of operating expenses of the fifteen Centers open at the end of 2008 compared to the eight at the end of 2007. Center operations and development expenses consist of the cost of operating Centers including but not limited to rent, physician salaries, staff salaries, supplies, marketing, advertising, and physician recruiting. Center operations and development expenses also include non-cash stock based compensation totaling \$307,720 and \$443,247 for the year ended December 31, 2008 and 2007 respectively.

Medical product expenses for the year ended December 31, 2008 were \$600,337 compared to \$205,110 for the year ended December 31, 2007. The increase in expenses for this segment of operations is a result of the Company's Partnership Program initiated in January of 2008. Medical product expenses include physician wages and travel associated with training and support, cost of product sales, cost of quality systems and programs, consulting expenses, marketing, and legal expenses. Medical product expenses include non-cash stock based compensation totaling \$150,520 and \$6,295 for the year ended December 31, 2008 and 2007 respectively.

Corporate and other expenses for the year ended December 31, 2008 were \$2,091,860 compared to \$1,932,746 for the year ended December 31, 2007. Corporate and other expenses include non-cash stock based compensation totaling \$494,332 and \$392,315 for the year ended December 31, 2008 and 2007 respectively.

#### Other items

The Company recognized interest income of \$52,074 for the year ended December 31, 2008 compared to \$174,629 for the year ended December 31, 2007. Interest income relates to the investment of funds held by the Company. The amount of funds invested and the interest rate associated with the Company's investments decreased in 2008 as compared to 2007.

For the year ended December 31, 2008, the Company recognized a foreign exchange loss of \$2,785 compared to a foreign exchange gain of \$535,610 for the year ended December 31, 2007. 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, 2007 was 0.9913 Canadian dollars to U.S. dollars compared to an exchange rate of 1.2180 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.

## Net Loss

For the year ended December 31, 2008, the Company incurred a net loss of \$3,936,605 (\$0.09 per share) compared to a loss of \$3,505,775 (\$0.08 per share) for the year ended December 31, 2007.

### SUMMARY OF QUARTERLY RESULTS

	December 31 2008	September 30 2008	June 30 2008	March 31 2008	December 31 2007	September 30 2007	June 30 2007	March 31 2007
Revenue	\$ 1,696,367	\$1,957,642	\$1,653,891	\$1,347,442	\$1,163,944	\$879,698	\$695,994	\$506,054
Center operations	1,459,980	1,789,970	1,504,072	1,293,568	1,098,923	825,018	646,700	452,917
Product sales	236,387	167,672	149,819	53,874	65,021	54,680	49,294	43,137
Total expenses and other items	2,583,050	2,950,853	2,751,864	2,306,180	1,941,311	1,657,282	1,469,779	1,683,093
Loss for the period	(888,682)	(993,211)	(1,097,973)	(958,738)	(777,367)	(777,584)	(773,785)	(1,177,039)
Net loss per share (basic and diluted)	(0.02)	(0.02)	(0.03)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)

Quarter-to-quarter variability and the trending increase in revenue is 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 an adjustment for a change in estimate related to contract adjustments of approximately \$40,000. This adjustment reduced revenue reported during the first quarter of 2008.
- Fourth quarter of 2007, the Company opened a second Center in Chicago and a Center in Seattle.
- 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.

The losses reported are primarily the result of the cost to open and operate the Centers in addition to corporate and other expenses. The Company expects losses to continue to decrease as the number of patient appointments per Center increases, and realize the benefits of operational fixed expense reduction programs at our existing Centers, closing some of our slower growing Centers, and increase revenues associated with our Partnership Program.

## FOURTH QUARTER

Total revenue increased by 46% for the quarter ended December 31, 2008 compared to the quarter ended December 31, 2007. Center operations revenue for the quarter ended December 31, 2008 increased to \$1,459,980 from \$1,098,923 for the same period in 2007, an increase of 33%. The increase was largely due to the number of Centers in operation and the increased number of patient appointments. During the fourth quarter 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.

Product sales revenue for the quarter ended December 31, 2008 increased 264% to \$236,387 from \$65,021 for the same period in 2007. The increase was primarily due to a strategic decision to sell our hemorrhoid banding technology, treatment protocols, training, marketing and operational experience directly to physicians through our Partnership Program.

Total expenses and other items for the quarter ended December 31, 2008 increased to \$2,583,050 from \$1,941,311 for the same period in 2007, an increase of 33%. This increase is the direct result of operating expenses of the fifteen Centers open at the end of 2008 compared to the eight at the end of 2007.

Total assets as at December 31, 2008 decreased to \$3,514,324 from \$6,413,595 as at December 31, 2007, a decrease of 45%. This decrease is the primarily the result of the change in cash and cash equivalents from \$3,531,818 at December 31, 2007 to \$239,337 at December 31, 2008.

## LIQUIDITY

As at December 31, 2008, the Company had \$239,337 in cash and cash equivalents compared to \$3,531,818 at the end of 2007. At December 31, 2008, working capital was \$1,605,473 compared to working capital of \$4,434,691 as at December 31, 2007.

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, 2008, the Company has raised approximately \$15 million from the sale and issuance of equity securities. The Company has incurred losses to date and as at December 31, 2008 had an accumulated deficit of \$15,258,880.

As at December 31, 2008, the Company had the following material contractual obligations:

2009	\$	620,613
2010		511,760
2011		254,661
2012		49,362
2013		-
	\$	1,436,396

## CAPITAL RESOURCES

During the year ended December 31, 2008, the Company issued 215,000 common shares on the exercise of 215,000 options for gross proceeds of \$89,750.

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, 2008 had a deficit of \$15,258,880, conditions which raise substantial doubt about the Company's ability to continue as a going concern. The Company is also planning to reduce

expenditures by closing certain Centers and reducing fixed operating costs at its remaining Centers. On April 7, 2009, the Company closed a private placement financing with net proceeds totaling approximately \$1.7 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. The above matters raise substantial doubt about the Company's ability to continue to operate as currently structured.

#### **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 \$29,000 (2007 - \$25,000) to directors of the Company. 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 while any differences in final settlements are recorded when the amounts are determined. Accounts receivable resulting from such payment arrangements are recorded net of contractual allowances.

(b) Accounts receivable and allowance for doubtful accounts:

Substantially all of the Company's accounts receivable are related to providing healthcare services to patients. 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 to payers who insure these patients and deductibles, co-payments and self-insured amounts owed by the patient. The Company's estimate for the allowance for doubtful accounts is calculated by

generally reserving a percentage of outstanding net accounts receivable. This method is monitored based on historical cash collections experience.

The Company believes that it collects substantially all of its third-party receivables, net of contractual allowances. To date, the Company believes there will not been a material difference between bad debt allowances and the ultimate historical collection rates on accounts receivables.

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

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 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.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

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

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. 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 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.

## **DISCLOSURE AND FINANCIAL REPORTING CONTROLS**

Management has established and maintained disclosure controls and procedures for the Company in order to provide reasonable assurance that material information relating to the Company is made known to it in a timely manner. Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at the date of the Company's 2008 Annual Report and is not aware of any material changes to these controls and procedures; it believes them to be effective in providing such reasonable assurance.

Management is also responsible for the design of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management has evaluated the design of the Company's internal controls and procedures over financial reporting as of the end of the period covered by the annual filings, and believes the design to be sufficient to provide such reasonable assurance.

Certain weaknesses were identified in the internal controls over financial reporting. Due to the size of the Company, it is not feasible to achieve complete segregation of duties. Management has identified certain areas where it can enhance controls and intends to incorporate such enhancements over the next twelve months. Management was unable to complete these enhancements during 2008 due to financial limitations, however, in November 2008, the Company engaged an experienced third party service provider to improve the billing and collection processes. Management expects this will expedite billing and collection of trade receivables, particularly with U.S. healthcare insurance organizations. Management employs compensating controls, primarily at the entity level, to mitigate the risk of a material misstatement in financial reporting.

While Management believes that the current disclosure and internal controls and procedures provide a reasonable level of assurance, it cannot be expected that existing disclosure controls and procedures or internal financial controls will prevent all human error and circumvention or overriding of controls and procedures. A control system, no matter how well conceived or operated can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

### **OUTSTANDING SHARE CAPITAL**

As at December 31, 2008 there were 44,939,251 common shares issued and outstanding for a total of \$15,022,822 in share capital.

As at December 31, 2008, there were 2,900,000 options outstanding (of which 1,742,251 were exercisable) into common shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of \$1.23 per share, and 1,529,000 common shares reserved for future grant or issuance under the Company's stock option plan.

As at April 30, 2009 there were 48,338,680 common shares issued and outstanding for a total of \$15,949,914 in share capital, there are 3,866,000 options outstanding (of which 1,643,095 were exercisable) into common shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of \$1.66 per share and 258,000 common shares reserved for future grant or issuance under the Company's stock option plan.

For further information about CRH Medical Corporation, please visit the Company website at [www.crhmedcorp.com](http://www.crhmedcorp.com) or [www.sedar.com](http://www.sedar.com), or email us at [info@crhmedcorp.com](mailto:info@crhmedcorp.com).

## 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.

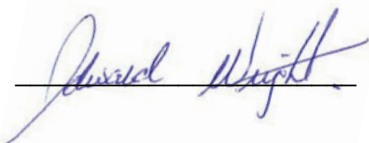
Management is responsible for establishing and maintaining a system of internal controls over financial reporting designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

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.

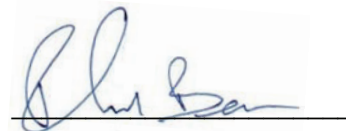
The Company's external auditors, who are appointed by the shareholders, conducted an independent audit in accordance with Canadian generally accepted auditing standards and express their opinion thereon.

April 17, 2009

/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.



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## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of CRH Medical Corporation as at December 31, 2008 and 2007 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, 2008 and 2007 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 17, 2009

# CRH MEDICAL CORPORATION

Consolidated Balance Sheets  
(Expressed in United States dollars)

December 31, 2008 and 2007

	2008	2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 239,337	\$ 3,531,818
Accounts receivable, less allowance for doubtful accounts of \$481,363 (2007 - \$93,850)	1,505,353	975,290
Inventory	49,490	30,716
Prepaid expenses and deposits	234,984	262,084
	<u>2,029,164</u>	<u>4,799,908</u>
Property and equipment (note 5)	813,806	879,394
Intellectual property (note 6)	671,354	734,293
	<u>\$ 3,514,324</u>	<u>\$ 6,413,595</u>

## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 257,265	\$ 323,791
Loan payable (note 12)	125,000	-
Deferred leasehold inducements	41,426	41,426
	<u>423,691</u>	<u>365,217</u>
Deferred leasehold inducements	57,303	98,729
Shareholders' equity:		
Share capital (note 7)	15,022,822	14,933,072
Contributed surplus (note 7)	3,336,160	2,405,624
Accumulated other comprehensive loss	(66,772)	(66,772)
Deficit	(15,258,880)	(11,322,275)
	<u>3,033,330</u>	<u>5,949,649</u>
Going concern (note 2)		
Commitments and contingencies (note 11)		
Subsequent event (note 15)		
	<u>\$ 3,514,324</u>	<u>\$ 6,413,595</u>

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, 2008 and 2007

	2008	2007
Revenue:		
Center operations	\$ 6,047,590	\$ 3,023,558
Product sales	607,752	222,132
	<u>6,655,342</u>	<u>3,245,690</u>
Expenses:		
Center operations and development	7,668,011	4,959,945
Medical products	600,337	205,110
Corporate and other	2,091,860	1,932,746
Depreciation and amortization	288,355	366,870
	<u>10,648,563</u>	<u>7,464,671</u>
Operating loss	(3,993,221)	(4,218,981)
Other items:		
Interest income	52,074	174,629
Foreign exchange gain (loss)	(2,785)	535,610
Other income	7,327	2,967
	<u>56,616</u>	<u>713,206</u>
Net loss and comprehensive loss	(3,936,605)	(3,505,775)
Deficit, beginning of year	(11,322,275)	(7,816,500)
Deficit, end of year	<u>\$ (15,258,880)</u>	<u>\$ (11,322,275)</u>
Basic and diluted loss per share	\$ (0.09)	\$ (0.08)
Weighted average shares outstanding	44,865,293	43,685,309

See accompanying notes to consolidated financial statements.

# CRH MEDICAL CORPORATION

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

Years ended December 31, 2008 and 2007

	2008	2007
Cash provided by (used in):		
Operations:		
Net loss	\$ (3,936,605)	\$ (3,505,775)
Items not involving cash:		
Depreciation and amortization	288,355	366,870
Foreign exchange gain	(18,060)	(11,610)
Amortization of deferred leasehold inducements	(41,426)	(41,426)
Stock-based compensation	952,572	841,857
Adjustment to reconcile net loss to net cash used in operating activities:		
Accounts receivable	(530,063)	(575,391)
Inventory	(18,774)	(25,753)
Prepaid expenses and deposits	27,100	(70,969)
Accounts payable and accrued liabilities	(66,526)	31,822
	<u>(3,343,427)</u>	<u>(2,990,375)</u>
Financing:		
Proceeds from loan	125,000	-
Proceeds from exercise of stock options	67,714	252,196
Proceeds on conversion of warrants	-	563,144
	<u>192,714</u>	<u>815,340</u>
Investments:		
Purchase of property and equipment	(147,019)	(220,205)
Intellectual property	(12,809)	-
	<u>(159,828)</u>	<u>(220,205)</u>
Foreign exchange gain on cash and cash equivalents	18,060	11,610
Decrease in cash and cash equivalents	(3,292,481)	(2,383,630)
Cash and cash equivalents, beginning of year	3,531,818	5,915,448
Cash and cash equivalents, end of year	<u>\$ 239,337</u>	<u>\$ 3,531,818</u>
Supplementary cash flow information:		
Interest received	\$ 52,074	\$ 174,629
Non-cash financing activities:		
Transfer from contributed surplus for options exercised	22,036	55,123

See accompanying notes to consolidated financial statements.

# CRH MEDICAL CORPORATION

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

Years ended December 31, 2008 and 2007

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## 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, 2008 had a deficit of \$15,258,880, conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company is also planning to reduce expenditures by closing certain Centers and reducing fixed operating costs at its remaining Centers. On April 7, 2009, the Company closed a private placement financing with net proceeds totaling approximately \$1.7 million (note 15). 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. The above matters raise substantial doubt about the Company's ability to continue to operate as currently structured.

## 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, 2008 and 2007

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### 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 of accounts receivable, property and equipment, and intellectual property, 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, 2008 and 2007

### 3. Significant accounting policies (continued):

(d) Accounts receivable and allowance for doubtful accounts:

Substantially all of the Company's accounts receivable are related to providing healthcare services to patients. 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 to payers who insure these patients and 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 by analyzing both the age of the receivable and whether or not the amount outstanding is due from insurance payer or an individual. This method is monitored based on historical cash collections experience.

The Company believes that it collects substantially all of its third-party receivables, net of contractual allowances. 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 reserve adequacy by monitoring historical cash collections as a percentage of net revenue less the provision for bad debts.

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	7.5 years

# CRH MEDICAL CORPORATION

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

Years ended December 31, 2008 and 2007

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### 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. 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. While any differences in final settlements are recorded when the amounts are determined, 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, or upon delivery, 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, 2008 and 2007

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### 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) Earnings per share:

The Company calculates basic earnings per share by dividing income for the period by the weighted average number of outstanding common shares and calculates diluted earnings per share under the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted earnings per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are applied to repurchase common shares at the average market price for the period. A stock option is dilutive only when there are net earnings and the average market price of common shares during the period exceeds the exercise price of the stock option.

(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 options 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, 2008 and 2007

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## 4. Changes in accounting policies:

### (a) Adoption of new accounting standards:

On January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures* (Section 1535), Handbook Section 3862, *Financial Instruments - Disclosures* (Section 3862) and Handbook Section 3863, *Financial Instruments - Presentation* (Section 3863).

#### (i) Capital disclosures:

Section 1535 specifies the disclosure of (A) an entity's objectives, policies and processes for managing capital; (B) quantitative data about what the entity regards as capital; (C) whether the entity has complied with any capital requirements; and (D) if it has not complied, the consequences of such non-compliance.

The Company has included disclosures to comply with Section 1535 in note 9 of these consolidated financial statements.

#### (ii) Financial instruments:

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements.

Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset.

The adoption of these standards did not have any impact on the classification and valuation of the Company's financial instruments. The Company has included disclosures to comply with these new Handbook Sections in note 10 to these consolidated financial statements.

# CRH MEDICAL CORPORATION

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

Years ended December 31, 2008 and 2007

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## 4. Changes in accounting policies (continued):

(b) Future changes in accounting policies:

(i) Goodwill and intangible assets:

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, which replaced Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. Section 1000, *Financial Statement Concepts*, was also amended to provide consistency with this new standard. The new Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. The standard applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The Company is currently assessing the impact of this new accounting standard on its consolidated financial statements.

(ii) 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.

## 5. Property and equipment:

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
	\$ 1,551,751	\$ 737,945	\$ 813,806

# CRH MEDICAL CORPORATION

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

Years ended December 31, 2008 and 2007

## 5. Property and equipment (continued):

2007	Cost	Accumulated amortization	Net book value
Computer and office equipment	\$ 149,875	\$ 95,298	\$ 54,577
Furniture and equipment	182,602	65,506	117,096
Leasehold improvements	952,776	282,696	670,080
Injection mold	155,257	117,616	37,641
	<u>\$ 1,440,510</u>	<u>\$ 561,116</u>	<u>\$ 879,394</u>

Depreciation for the year ended December 31, 2008 was \$212,607 (2007 - \$291,762).

## 6. Intellectual property:

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
	<u>\$ 1,048,761</u>	<u>\$ 377,407</u>	<u>\$ 671,354</u>

2007	Cost	Accumulated amortization	Net book value
O'Regan ligator patents	\$ 464,309	\$ 143,584	\$ 320,725
FOBT US patent #1	285,821	84,116	201,705
FOBT US patent #2	285,821	73,958	211,863
	<u>\$ 1,035,951</u>	<u>\$ 301,658</u>	<u>\$ 734,293</u>

Amortization for the year ended December 31, 2008 was \$75,748 (2007 - \$75,108).

# CRH MEDICAL CORPORATION

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

Years ended December 31, 2008 and 2007

## 7. Share capital:

(a) Authorized:

100,000,000 common shares without par value

(b) Issued:

	Shares	Amount	Contributed surplus
Balance, December 31, 2006	42,890,351	\$ 14,062,609	\$ 1,618,890
Issued on exercise of options	809,000	307,319	(55,123)
Issued on conversion of warrants (i)	1,024,900	563,144	-
Stock-based compensation	-	-	841,857
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

(i) For the year ended December 31, 2007, 1,024,900 warrants were exercised at a weighted average exercise price of \$0.55 and 25,000 warrants expired unexercised leaving no outstanding warrants at December 31, 2008 and 2007.

(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 over a period not less than 12 months.

# CRH MEDICAL CORPORATION

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

Years ended December 31, 2008 and 2007

## 7. Share capital (continued):

### (c) Stock option plan (continued):

A summary of the status of the plan as of December 31, 2008 and December 31, 2007 and changes during each period are as follows:

	2008			2007		
	Shares	Weighted average exercise price		Shares	Weighted average exercise price	
		CAD	USD		CAD	USD
Outstanding, beginning of year	2,838,000	\$ 1.81	\$ 1.82	3,055,000	\$ 1.32	\$ 1.33
Issued	313,000	1.99	2.00	668,000	2.23	2.25
Exercised	(215,000)	0.32	0.24	(809,000)	0.34	0.34
Forfeited and expired	(36,000)	2.09	1.77	(76,000)	1.49	1.50
Outstanding, end of year	2,900,000	\$ 1.93	\$ 1.59	2,838,000	\$ 1.81	\$ 1.82

The following table summarizes information about the stock options outstanding at December 31, 2008:

Exercise price		Options outstanding			Options exercisable			
		Number of options	Weighted average remaining life	Weighted exercise price USD	Weighted exercise price CAD	Number of options	Weighted average exercise price USD	Weighted average exercise price CAD
USD	CAD							
\$0.30 - \$0.48	\$0.37 - \$0.59	573,000	1.32	\$0.35	\$0.43	545,000	\$0.35	\$0.42
\$1.23 - \$1.83	\$1.50 - \$2.23	1,822,000	3.16	1.76	2.14	854,751	1.76	2.15
\$2.01 - \$2.71	\$2.45 - \$3.30	505,000	2.55	2.40	2.92	342,500	2.51	3.06
		2,900,000	2.69	\$1.59	\$1.93	1,742,251	\$1.23	\$1.43

For the year ended December 31, 2008, the Company recognized \$952,572 (2007 - \$841,857) 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.

# CRH MEDICAL CORPORATION

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

Years ended December 31, 2008 and 2007

## 7. Share capital (continued):

### (c) Stock option plan (continued):

The weighted average fair value of stock options granted during the years ended December 31, 2008 and December 31, 2007 was \$1.32 and \$1.50 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:

	2008	2007
Expected life of options	4 years	4 years
Risk-free interest rate	2.9% - 3.3%	3.6% - 4.6%
Dividend yield	0%	0%
Volatility	87% - 92%	95% - 105%

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.

## 8. Income taxes:

The reconciliation of income tax computed at statutory tax rates to income tax expense, using a 31% (2007 - 34.12%) statutory rate, is:

	2008	2007
Tax recovery at statutory income tax rates	\$ (1,220,348)	\$ (1,196,170)
Change in valuation allowance	796,898	894,394
Permanent differences and other	327,452	299,507
Tax rate differences	95,998	2,269
Income tax expense	\$ -	\$ -

# CRH MEDICAL CORPORATION

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

Years ended December 31, 2008 and 2007

## 8. Income taxes (continued):

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

	2008	2007
Future income tax assets:		
Non-capital losses available for future periods	\$ 3,775,260	\$ 3,003,168
Future income tax liabilities:		
Property and equipment	(8,350)	(25,113)
Intellectual property	(126,026)	(134,069)
	(134,376)	(159,182)
	3,640,884	2,843,986
Valuation allowance	(3,640,884)	(2,843,986)
	\$ -	\$ -

At December 31, 2008, the Company has tax losses of approximately \$7.3 million (2007 - \$6.0 million) from its Canadian operations and \$5.5 million (2007 - \$3.4 million) from its U.S. operations, available to reduce future years' income taxes. The Canadian losses expire from 2009 through 2028 and U.S. tax losses expire from 2025 to 2027.

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, 2007.

# CRH MEDICAL CORPORATION

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

Years ended December 31, 2008 and 2007

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## 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.

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 56% of the Company's revenue is ultimately collected from five of the largest 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.

# CRH MEDICAL CORPORATION

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

Years ended December 31, 2008 and 2007

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## 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	\$ 1,986,716
Less: allowance for doubtful accounts	481,363
<hr/>	
Total accounts receivable, net	\$ 1,505,353
<hr/>	
Of which:	
Current	\$ 614,323
Less than 60 days	283,829
Less than 90 days	181,394
Less than 120 days	166,037
120 days or greater	741,123
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Total accounts receivable	\$ 1,986,706

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(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.

(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, 2008 approximately 1.46% of the Company's sales was made in Canadian dollars and approximately 21.73% of expenses was incurred in Canadian dollars. With all other variables held constant, a ten percentage point increase in the value of the Canadian dollar relative to the U.S. dollar would have reduced net loss by approximately \$239,349 for the year ended December 31, 2008. There would be an equal and opposite impact on the net loss with a ten percentage point decrease in the value of the Canadian dollar relative to the U.S. dollar.

# CRH MEDICAL CORPORATION

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

Years ended December 31, 2008 and 2007

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## 10. Financial instruments (continued):

(c) Market risk (continued):

(i) Foreign currency risk (continued):

At December 31, 2008, 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 ten percentage point increase in the value of the Canadian dollar relative to the U.S. dollar would have increased net income by approximately \$13,255 at December 31, 2008 based on the net working capital position in Canadian dollars. There would be an equal and opposite impact on the net loss with a ten percentage 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, 2008:

Expressed in U.S. dollar equivalent	CAD
Cash and cash equivalents	\$ 12,232
Accounts receivable	11,883
Accounts payable and other liabilities	134,611

(ii) Interest rate currency risk:

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk arising primarily from fluctuations in interest rates on its cash and cash equivalents. The Company limits its exposure to interest rate risk by monitoring and adjusting portfolio duration to align to forecasted cash requirements. The Company has performed sensitivity analysis on interest rate risk at December 31, 2008, to determine how a change in interest rates would impact equity and net loss. During the year, the company earned \$52,074 of interest income on its cash and cash equivalents. An increase of 100 basis points in the average interest rate earned during the period, with all other variables held constant, would have decreased net loss by \$13,064. If interest rates had been 100 basis points lower, there would have been an equal and opposite impact on equity and net loss.

# CRH MEDICAL CORPORATION

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

Years ended December 31, 2008 and 2007

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## 11. Commitments and contingencies:

(a) The following are the minimum payments required for the lease of premises expiring in 2012:

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2009	\$	620,613
2010		511,760
2011		254,661
2012		49,362
2013		-
	\$	1,436,396

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Rent expense for the year ended December 31, 2008 was \$692,059 (2007 - \$444,448).

(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 that matures on November 26, 2009 for a revolving line of credit collateralized by the Company's accounts receivable. The Company can borrow up to 50%, to a maximum of \$750,000, of the Company's qualified accounts receivable. Qualified accounts receivable as of December 31, 2008 is \$1.7 million. Interest is paid monthly on amounts outstanding. If the Company's average monthly utilization of the credit line exceeds \$487,500 the interest rate is increased to a fixed rate of 15.25% per annum, otherwise the interest rate is fixed at 14.25% per annum. The loan is also secured by the Company's intellectual property.

## 13. Related party transactions:

The Company paid or accrued fees of \$29,000 (2007 - \$25,000) to directors of the Company. These transactions are measured at the exchange amount being the amount of consideration established and agreed to by the related parties.

# CRH MEDICAL CORPORATION

Notes to Consolidated Financial Statements  
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Years ended December 31, 2008 and 2007

## 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:

2008	Medical products	Center operations and development	Corporate and other	Total
Sales	\$ 607,752	\$ 6,047,590	\$ -	\$ 6,655,342
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	-	-	4,542	4,542
<b>Net loss</b>	<b>\$ (18,643)</b>	<b>\$ (1,802,098)</b>	<b>\$ (2,115,864)</b>	<b>\$ (3,936,605)</b>
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
<b>Total assets</b>	<b>\$ 282,970</b>	<b>\$ 2,435,506</b>	<b>\$ 795,848</b>	<b>\$ 3,514,324</b>

# CRH MEDICAL CORPORATION

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

Years ended December 31, 2008 and 2007

## 14. Segmented information (continued):

2007	Medical products	Center operations and development	Corporate and other	Total
Sales	\$ 222,132	\$ 3,023,558	\$ -	\$ 3,245,690
Depreciation and amortization	(87,245)	(207,320)	(72,305)	(366,870)
Stock-based compensation	(6,295)	(443,247)	(392,315)	(841,857)
Expenses	(198,814)	(4,516,698)	(1,540,432)	(6,255,944)
Interest income	-	-	174,629	174,629
Foreign exchange gain and other income	-	-	538,577	538,577
Net loss	\$ (70,222)	\$ (2,143,707)	\$ (1,291,846)	\$ (3,505,775)
Capital expenditures	\$ 59,025	\$ 157,037	\$ 4,143	\$ 220,205
Intellectual property	\$ 320,725	\$ -	\$ 413,568	\$ 734,293
Property and equipment	\$ 41,305	\$ 822,323	\$ 15,766	\$ 879,394
Total assets	\$ 91,978	\$ 2,043,994	\$ 4,277,623	\$ 6,413,595

For the years ended December 31, 2008 and 2007, 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, 2008 and 2007, substantially all of the Company's property and equipment were located in the United States.

## 15. Subsequent event:

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 \$90,000, for net proceeds of approximately \$1.77 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 20<sup>th</sup> day following the giving of such notice unless exercised by the holders prior to such date.



