

## **CRH Medical Corporation**

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### **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





























































