

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

Year Ended December 31, 2010
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, 2010

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, 2010. 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 22, 2011.

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-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.
- Changes in United States federal or state laws, rules, and regulations.
- 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 be subject to product liability 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 distribution of innovative medical products directly to physicians. The Company's distribution strategy focuses on physician education, patient outcomes,

and patient awareness. CRH creates meaningful relationships with physicians. The Company's first product, the O'Regan System, is a single use, disposable, hemorrhoid technology that is safe and highly effective in treating hemorrhoid grades I – IV. CRH distributes the O'Regan System, treatment protocols, operational and marketing expertise as a complete, turnkey package directly to physicians. The Company's goal is to establish the CRH O'Regan System as the standard for hemorrhoid treatment. In the future the Company expects to identify and incorporate additional products and services into its innovative distribution model. In addition the Company operated Centers for Colorectal Health ("Centers"). On December 3, 2010 the Company closed its remaining eight Centers for Colorectal Health. The Company anticipates that the restructuring of the Company to focus solely on its rapidly growing and highly profitable direct to physician program will allow CRH to reach its goal of profitability in 2011.

The Company has financed its cash requirements primarily from revenues generated from its Centers and sales of its product directly to physicians, equity financings and a line of credit. The Company's ability to realize the carrying value of its assets is dependent on successfully marketing its products directly to physicians 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.

CHANGES IN ACCOUNTING POLICIES

Future changes in accounting policies:

- (i) International Financial Reporting Standards (IFRS):

Convergence with 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.

Preparation of the IFRS opening balance sheet is in process and the preparation of the comparative IFRS financial statements for the periods ended March 31, 2010, June 30, 2010, September 30, 2010 and December 31, 2010 will be completed prior to reporting March 31, 2011 financial results. The Company has reviewed its accounting policies under IFRS with the external auditors.

The Company has provided key finance staff with adequate training and resources throughout the transition to IFRS. Senior management has been actively involved in the transition and the Audit Committee has been updated regularly on the issues and progress of the conversion to IFRS. Communication to external stakeholders has been ongoing through the Company's MD&A disclosures.

The Company has assessed and made changes necessary to the design of existing internal control processes and procedures, including disclosure controls and one-time changes for opening adjustments, as a result of implementing IFRS. The Company has also considered the impact of IFRS on its business activities in general. The adoption of IFRS will not have a significant effect on budgeting and management reporting processes.

Transition impact on the opening balance sheet

The Company is in the process of completing its assessment of IFRS 1 exemptions and the key differences between Canadian GAAP and IFRS, as applicable to the Company, based on the IFRS standards effective as of December 31, 2010. Circumstances may arise such as changes in IFRS standards or interpretation of existing IFRS standards before the consolidated financial statements as at December 31, 2011 are prepared. Consequently, final accounting policy decisions for all standards and exemptions in effect at the date of transition will be made during the preparation of the consolidated financial statements as at December 31, 2011.

IFRS 1 – First-Time Adoption of International Financial Reporting Standards requires all IFRS be applied retrospectively except for certain first-time adoption exemptions. The Company has summarized the relevant IFRS 1 transitional exemptions below.

Exemption	Conclusions
Business combinations	Business combinations previously accounted for under Canadian GAAP will not be restated. The Company will elect to apply the provisions of IFRS 3 – Business Combinations prospectively from the date of transition.
Fair value as deemed cost	The Company will elect not to apply fair valuation on the date of transition.

The Company does not expect any material differences between its December 31, 2010 balance sheet prepared in accordance with Canadian Generally Accepted Accounting Principles and the January 1, 2011 opening balance sheet prepared in account with IFRS.

(ii) Consolidations:

Section 1582 - *Business Combinations*, which replaces CICA section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price on the date of the exchange. The new guidance requires all costs of the acquisition to be expensed, which were previously capitalized as part of the purchase price. Contingent liabilities are recognized at fair value at the acquisition date and re-measured at fair value through earnings until settled. Previously only contingent liabilities that were resolved and payable were included in the cost to acquire the enterprise. In addition, negative goodwill is recognized immediately in earnings, unlike the previous requirements to eliminate it by deducting it from non-current assets in the purchase price allocation. Section 1582 is effective for the Company on January 1, 2011 with prospective application and early adoption permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

Section 1601 - *Consolidated Financial Statements*, which replaces CICA section 1600 of the same name. This guidance requires consistent application of accounting policies throughout all consolidated entities. Section 1601 is effective for the Company on January 1, 2011 with prospective application and early adoption permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

Section 1602 - *Non-controlling interests*, which replaces CICA section 1600 *Consolidated Financial Statements*. This standard establishes the accounting for a non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling Interest. Section 1602 is effective for the Company on January 1, 2011 with prospective application and early adoption permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

SELECTED ANNUAL INFORMATION

	2010	2009	2008
Revenue	\$ 3,645,118	\$ 1,864,728	\$ 615,079
Total expenses and other items	3,854,785	3,426,569	2,746,586
Net loss from continuing operations	(208,667)	(1,561,841)	(2,134,507)
Loss from discontinued operations	(1,407,150)	(990,506)	(1,802,098)
Net loss	(1,616,817)	(2,552,347)	(3,936,605)
Net loss per share	(0.03)	(0.05)	(0.09)
Total assets	3,138,229	3,823,975	3,514,324
Total liabilities	800,628	734,493	480,994

RESULTS OF OPERATIONS

Revenue

Revenues for the year ended December 31, 2010 were \$3,645,118 compared to \$1,864,728 for the year ended December 31, 2009. The increase in revenue is the result of the Company's sales of its CRH O'Regan System direct to physicians. In January of 2009, the Company initiated its direct to physician program that provides physicians the ability to purchase our hemorrhoid banding technology, treatment protocols, marketing and operational experience. The increase in product sales is the result of the continuing successful execution of this program. The Company trained 342 physicians for the year ended December 31, 2010, versus 230 physicians for the year ended December 31, 2009. In the future the Company expects revenue from product sales to continue to increase as more physicians are trained.

Expenses

Medical product expenses for the year ended December 31, 2010 were \$1,928,577 compared to \$1,066,739 for the year ended December 31, 2009. The increase in Medical product expenses is a result of the Company's direct to physician program initiated in January of 2009. 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 \$211,542 for the year ended December 31, 2010 compared to \$91,773 for the year ended December 31, 2009.

Corporate and other expenses for the year ended December 31, 2010 were \$1,867,484 compared to \$1,898,811 for the year ended December 31, 2009. Corporate and other expenses include non-cash stock based compensation totaling \$356,757 for the year ended December 31, 2010 compared to \$463,522 for the year ended December 31, 2009.

Depreciation and amortization expenses for the year ended December 31, 2010 were \$57,997 compared to \$118,578 for the year ended December 31, 2009. The decrease in depreciation and

amortization expense is a result the Company's determination at December 31, 2009 to impair \$322,462 in intangible assets related to the Company's Fecal Occult Blood Test and the depreciation expense allocated to loss from discontinued operations.

Operating loss

For the year ended December 31, 2010 loss from operations was \$208,940 compared to \$1,219,400 for the year ended December 31, 2009.

For the year ended December 31, 2010 the sale of medical products generated operating income of \$1,688,317 compared to \$733,213 for the year ended December 31, 2009. 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

For the year ended December 31, 2010, the Company recognized a foreign exchange loss of \$727 compared to a foreign exchange loss of \$19,979 for the year ended December 31, 2009. The foreign exchange gain is a direct result of the increase 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, 2010 is \$0.99 Canadian dollars to U.S. dollars compared to an exchange rate of \$1.051 at December 31, 2009. 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 from continuing operations

For the year ended December 31, 2010, the Company incurred a net loss from continuing operations of \$209,667 compared to a loss of \$1,561,841 for the year ended December 31, 2009.

Loss from discontinued operations

In December 2010 the Company closed its remaining eight Centers for Colorectal Health and discontinued its Center Operations business segment. Loss from discontinued operations for the year ended December 31, 2010 was \$1,407,150 compared to \$990,506 for the year ended December 31, 2009. The loss from discontinued operations for the year ended December 31, 2010 includes onetime discontinuation cost of \$266,795 and an asset impairment charge of \$243,896. The Company does not anticipate any future material discontinuation expense related to the closing of the Centers.

Net Loss

For the year ended December 31, 2010, the Company incurred a net loss of \$1,616,817 (\$0.03 per share) compared to a net loss of \$2,552,347 (\$0.05 per share) for the year ended December 31, 2009.

SUMMARY OF QUARTERLY RESULTS

The quarters commencing September 30, 2009 were not reviewed by the Company's auditors.

Quarter ending	Revenue	Total expenses and other items	(Loss) income from continuing operations	(Loss) from discontinued operations	(Loss) for the period	Net (loss) per share (basic & diluted)
Mar. 31, 2009	332,273	765,271	(432,998)	(272,010)	(705,008)	(0.020)
June 30, 2009	492,847	737,362	(244,515)	(119,271)	(363,786)	(0.008)
Sept. 30, 2009	477,006	756,313	(279,307)	(150,553)	(429,860)	(0.010)
Dec. 31, 2009	562,602	1,167,623	(605,021)	(448,672)	(1,053,693)	(0.020)
Mar. 31, 2010	715,622	924,046	(208,424)	(92,458)	(300,882)	(0.010)
June 30, 2010	864,611	970,387	(105,776)	(358,580)	(464,356)	(0.010)
Sept. 30, 2010	927,775	933,048	(5,273)	(223,646)	(228,919)	(0.005)
Dec. 31, 2010	1,137,110	1,027,304	109,806	(732,466)	(622,660)	(0.013)

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

- 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.
- During the fourth quarter of 2010 the Company closed its remaining eight Centers for Colorectal Health and discontinued its Center Operations business segment. The loss from discontinued operations for the year ended December 31, 2010 includes onetime discontinuation cost of \$266,795 and an asset impairment charge of \$243,896.

The historical losses reported are primarily the result of the cost to operate the Centers in addition to corporate and other expenses. The Company expects income to continue to increase as product sales increase.

FOURTH QUARTER

Total revenue for the quarter ended December 31, 2010 increased 102% to \$1,137,110 from \$562,602 for the same period in 2009. The increase was primarily due to the success of the Company's direct to physician 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, 2010 decreased to \$1,027,304 from \$1,167,623 for the same period in 2009, a decrease of 12%. This decrease is primarily due to an impairment of asset charge during the fourth quarter of 2009 totaling \$322,462 related to Fecal Occult Blood Test intellectual property, offset by increased cost to support product sales.

Total assets as at December 31, 2010 decreased to \$3,138,229 from \$3,823,975 as at December 31, 2009, a decrease of 18%. This decrease is the primarily the result of the assets impaired, and a

decrease in accounts receivable as a result of the discontinuation of the Center Operations business offset by increases in inventory to support our direct to physician product sales.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2010, the Company had \$1,792,461 in cash and cash equivalents compared to \$1,672,512 at the end of 2009. At December 31, 2010, working capital was \$1,979,082 compared to working capital of \$2,239,729 as at December 31, 2009.

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, 2010, 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, 2010 had an accumulated deficit of \$19,428,044. The Company expects that going forward cash from operating activities will be positive and will be sufficient to fund the business.

Operating Activities

Cash provided by operating activities was a negative \$96,426 compared to a negative \$290,161 for the year ending December 31, 2009. Cash provided by operating activities of the continuing business was a positive \$134,916 compared to a negative \$601,625 for the year ending December 31, 2009

Financing Activities

During the year ended December 31, 2010, the Company issued 200,250 common shares on the exercise of 200,250 options for gross proceeds of \$85,859. Additionally the Company issued 139,573 common shares on the exercise of 139,573 common share purchase warrants for gross proceeds of \$136,576.

As at December 31, 2010, the Company had the following material contractual obligations:

	Total	< 1 year	1 – 3 years	4 – 5 years	> 5 years
Leases	\$ 237,341	\$ 180,189	\$ 57,152	\$ nil	\$ nil
Total	\$ 237,341	\$ 180,189	\$ 57,152	\$ nil	\$ nil

OUTSTANDING SHARE CAPITAL

As at December 31, 2010, there were 48,745,790 common shares issued and outstanding for a total of \$17,180,460 in share capital.

As at December 31, 2010, there were 4,372,000 options outstanding (of which 2,378,755 were exercisable) into common shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of \$1.88 per share, and 368,550 common shares reserved for future grant or issuance under the Company's stock option plan.

As at April 22, 2011 there were 48,745,790 common shares issued and outstanding for a total of \$17,180,460 in share capital, there are 3,972,000 options outstanding (of which 2,168,922 were exercisable) into common shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of \$1.60 per share and 768,550 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 \$99,531 (2009 - \$41,449) to Directors of the Company. Additionally, the company made product sales totaling \$137,852 (2009 - \$63,701) 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 to 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:

Long-lived assets are reviewed for impairment upon the occurrence of events or circumstances indicating that the carrying value of the assets may not be recoverable as measured by comparing their net book value to the estimated undiscounted future cash flows generated by their use. Impaired assets are recorded at fair value, determined principally by using discounted future cash flows expected from their use and eventual disposition.

(d) 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.

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.

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.

Consolidated Financial Statements
(Expressed in United States dollars)

CRH MEDICAL CORPORATION

Years ended December 31, 2010 and 2009

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.

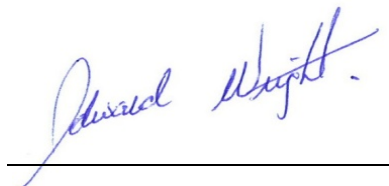
Management is responsible for establishing and maintaining a system of internal controls over financial reporting designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

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.

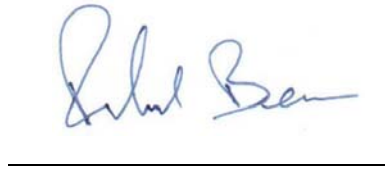
The Company's external auditors, who are appointed by the shareholders, conducted an independent audit in accordance with Canadian generally accepted auditing standards and express their opinion thereon.

April 26, 2011

/s/Edward Wright
Chief Executive Officer



/s/Richard Bear
Chief Financial Officer





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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of CRH Medical Corporation

We have audited the accompanying consolidated financial statements of CRH Medical Corporation, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of CRH Medical Corporation as at December 31, 2010 and December 31, 2009, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

April 26, 2011
Vancouver, Canada

CRH MEDICAL CORPORATION

Consolidated Balance Sheets
(Expressed in United States dollars)

December 31, 2010 and 2009

	2010	2009
		(Restated – note 4)
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,792,461	\$ 1,672,512
Accounts receivable, less allowance for doubtful accounts of \$193,082 (2009 - \$349,827)	539,238	1,042,091
Inventory	318,679	78,275
Prepaid expenses and deposits	129,332	165,466
	<u>2,779,710</u>	<u>2,958,344</u>
Property and equipment (note 5)	115,117	597,264
Intellectual property (note 6)	243,402	268,367
	<u>\$ 3,138,229</u>	<u>\$ 3,823,975</u>

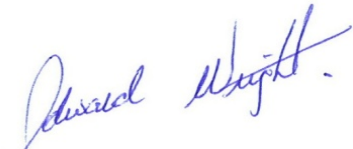
Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 800,628	\$ 677,189
Deferred leasehold inducements	-	41,426
	<u>800,628</u>	<u>718,615</u>
Deferred leasehold inducements	-	15,878
Shareholders' equity:		
Share capital (note 7)	17,180,460	16,873,657
Contributed surplus (note 7)	4,651,957	4,093,824
Accumulated other comprehensive loss	(66,772)	(66,772)
Deficit	(19,428,044)	(17,811,227)
	<u>2,337,601</u>	<u>3,089,482</u>
	<u>\$ 3,138,229</u>	<u>\$ 3,823,975</u>

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, 2010 and 2009

	2010	2009
		(Restated – note 4)
Revenue:		
Product sales	\$ 3,645,118	\$ 1,864,728
Expenses:		
Medical products	1,928,577	1,066,739
Corporate and other	1,867,484	1,898,811
Depreciation and amortization	57,997	118,578
	<u>3,854,058</u>	<u>3,084,128</u>
Operating loss	(208,940)	(1,219,400)
Other items:		
Foreign exchange gain (loss)	(727)	(19,979)
Impairment of intellectual property	-	(322,462)
	<u>(727)</u>	<u>(342,441)</u>
Net loss and comprehensive loss before discontinued operations	(209,667)	(1,561,841)
Loss from discontinued operations (note 4)	(1,407,150)	(990,506)
Net loss and comprehensive loss	(1,616,817)	(2,552,347)
Deficit, beginning of year	(17,811,227)	(15,258,880)
Deficit, end of year	<u>\$ (19,428,044)</u>	<u>\$ (17,811,227)</u>
Net loss per share:		
Continuing operations basic and diluted	\$ (0.00)	\$ (0.03)
Discontinued operations basic and diluted	(0.03)	(0.02)
Net loss per share basic and diluted	<u>\$ (0.03)</u>	<u>\$ (0.05)</u>
Weighted average shares outstanding	<u>48,583,841</u>	<u>47,486,858</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, 2010 and 2009

	2010	2009
		(Restated – note 4)
Cash provided by (used in):		
Operations:		
Net loss from continuing operations	\$ (209,667)	\$ (1,561,841)
Items not involving cash:		
Depreciation and amortization	57,997	118,578
Impairment of intellectual property	-	322,462
Foreign exchange gain (loss)	(6,135)	7,928
Stock-based compensation	568,299	555,295
Adjustments to reconcile net loss to net cash used in operating activities:		
Accounts receivable	(185,226)	(153,486)
Inventory	(240,404)	(28,785)
Prepaid expenses and deposits	(78,543)	49,465
Accounts payable and accrued liabilities	228,595	88,759
Cash provided by operating activities of continuing operations	134,916	(601,625)
Cash provided by operating activities of discontinued operations (note 4)	(231,342)	311,464
Cash provided by operating activities	(96,426)	(290,161)
Financing:		
Proceeds from loan	-	225,000
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	136,576	19,500
Proceeds from exercise of stock options	85,859	114,570
	222,435	1,772,993
Investments:		
Purchase of property and equipment	-	(41,729)
Intellectual property	(12,195)	-
	(12,195)	(41,729)
Effects of foreign exchange rate changes on cash and cash equivalents	6,135	(7,928)
Increase in cash and cash equivalents	119,949	1,433,175
Cash and cash equivalents, beginning of year	1,672,512	239,337
Cash and cash equivalents, end of year	\$ 1,792,461	\$ 1,672,512
Supplementary cash flow information:		
Non-cash financing activities:		
Transfer from contributed surplus for options exercised	58,558	71,164

See accompanying notes to consolidated financial statements.

CRH MEDICAL CORPORATION

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

Years ended December 31, 2010 and 2009

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. Significant accounting policies:

(a) Principles of consolidation:

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and include the accounts of the Company and its wholly-owned subsidiaries. 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.

(b) Use of estimates:

The preparation of the consolidated financial statements in conformity with Canadian GAAP 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, 2010 and 2009

2. Significant accounting policies (continued):

(d) Accounts receivable and allowance for doubtful accounts:

The Company's accounts receivable are related to the sale of product directly to physicians and 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 patient deductibles 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 based on historical 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	Shorter of initial lease term or useful life
Injection mold	Straight-line	5 years

(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.

CRH MEDICAL CORPORATION

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

Years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

(h) Impairment of long-lived assets:

Long-lived assets are reviewed for impairment upon the occurrence of events or circumstances indicating that the carrying value of the assets may not be recoverable as measured by comparing their net book value to the estimated undiscounted future cash flows generated by their use. Impaired assets are recorded at fair value, determined principally by using discounted future cash flows expected from their use and eventual disposition.

(i) Revenue recognition:

(i) 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.

(ii) 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 adjustments.

(j) 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.

(k) 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 basic loss per share as the outstanding options and warrants are anti-dilutive for all periods presented.

CRH MEDICAL CORPORATION

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

Years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

(l) 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 basis (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.

(m) 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.

(n) Discontinued operations:

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative Statements of Consolidated Operations and Comprehensive Loss is represented as if the operation had been discontinued from the start of the comparative period.

(o) Comparative figures:

Certain of the figures presented for comparative purposes have been reclassified to conform with the financial statement presentation adopted for the current year.

CRH MEDICAL CORPORATION

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

Years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

(p) Financial instruments:

Fair value measurements of financial instruments are determined by using a fair value hierarchy that prioritizes the inputs to valuation techniques into three levels according to the relative reliability of the inputs used to estimate the fair values.

The three levels used to measure fair value are as follows:

Level 1 – Unadjusted quoted price in active markets for identical financial instruments.

Level 2 - Inputs other than quoted prices that are observable for the financial instrument either directly or indirectly; and

Level 3 - Inputs that are not based on observable market data.

In determining fair value measurements, we use the most observable inputs when available. The fair value hierarchy level at which a financial instrument is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement.

3. Changes in accounting policies:

Future changes in accounting policies:

(i) International Financial Reporting Standards (IFRS):

In February 2008, the CICA announced that Canadian public companies will be required to prepare their financial statements in accordance with IFRS for fiscal years beginning on or after January 1, 2011. The Company will issue its financial statements in the first quarter of 2011 in accordance with IFRS including restatement of comparative data for 2010 and presentation of the opening balance sheet as at January 1, 2010.

(ii) Consolidations:

Section 1582 - *Business Combinations*, which replaces CICA section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price on the date of the exchange. The new guidance requires all costs of the acquisition to be expensed, which were previously capitalized as part of the purchase price. Contingent liabilities are recognized at fair value at the acquisition date and re-measured at fair value through earnings until settled. Previously only contingent liabilities that were resolved and payable were included in the cost to acquire the enterprise. In addition, negative goodwill is recognized immediately in earnings, unlike the previous requirements to eliminate it by deducting it from non-current assets in the purchase price allocation. Section 1582 is effective for the Company on January 1, 2011 with prospective application and early adoption permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

CRH MEDICAL CORPORATION

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

Years ended December 31, 2010 and 2009

3. Changes in accounting policies (continued):

(ii) Consolidations (continued):

Section 1601 - *Consolidated Financial Statements*, which replaces CICA section 1600 of the same name. This guidance requires consistent application of accounting policies throughout all consolidated entities. Section 1601 is effective for the Company on January 1, 2011 with prospective application and early adoption permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

Section 1602 - *Non-controlling interests*, which replaces CICA section 1600 *Consolidated Financial Statements*. This standard establishes the accounting for a non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling Interest. Section 1602 is effective for the Company on January 1, 2011 with prospective application and early adoption permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

4. Discontinued operations:

Effective December 3, 2010, the Company's Center Operations business segment was discontinued and the Centers were closed. The results of the discontinued operations for the years ended December 31, 2010 and 2009 are summarized below.

	2010	2009
Effect of discontinued operations on statement of operations:		
Center operations revenue	\$ 3,428,248	\$ 5,200,130
Expenses:		
Center operations	4,117,793	5,970,044
Depreciation and amortization	206,914	220,592
	4,324,707	6,190,636
Impairment of property and equipment	243,896	-
Center closure costs	266,795	-
	\$ (1,407,150)	\$ (990,506)

CRH MEDICAL CORPORATION

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

Years ended December 31, 2010 and 2009

4. Discontinued operations (continued):

	2010	2009
Loss from discontinued operations	\$ (1,407,150)	\$ (990,506)
Add (deduct) items not affecting cash:		
Stock based compensation	74,202	155,212
Amortization	206,914	220,592
Asset impairment	254,396	-
Lease inducements	(57,304)	(41,800)
	(928,942)	(656,502)
Changes in non-cash working capital:		
Accounts receivable	688,079	616,748
Prepaid expenses and deposits	114,677	20,053
Accounts payable and accrued liabilities	(105,156)	331,165
	\$ (231,342)	\$ 311,464

The net book values of the net assets from discontinued operations were:

	2010	2009
Cash	\$ -	\$ 3,500
Accounts receivable	89,701	777,780
Prepaid expenses	-	114,677
Property, plant and equipment	-	472,378
	\$ 89,701	\$ 1,368,333

5. Property and equipment:

2010	Cost	Accumulated amortization	Net book value
Computer and office equipment	\$ 75,528	\$ 59,454	\$ 16,074
Furniture and equipment	48,316	33,578	14,738
Leasehold improvements	31,352	29,821	1,531
Injection mold	282,172	199,398	82,774
	\$ 437,368	\$ 322,251	\$ 115,117

CRH MEDICAL CORPORATION

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

Years ended December 31, 2010 and 2009

5. Property and equipment (continued):

2009	Cost	Accumulated amortization	Net book value
Computer and office equipment	\$ 150,814	\$ 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>

Depreciation for the year ended December 31, 2010 was \$227,751 (2009 - \$258,271).

6. Intellectual property:

2010	Cost	Accumulated amortization	Net book value
O'Regan ligator patents	\$ 487,446	\$ 244,044	\$ 243,402

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

Amortization for the year ended December 31, 2010 was \$37,160 (2009 - \$80,899). During the year ended December 31, 2010, the Company recognized an impairment charge of nil (2009 - \$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.

CRH MEDICAL CORPORATION

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

Years ended December 31, 2010 and 2009

7. Share capital:

(a) Authorized:

100,000,000 common shares without par value

(b) Issued:

	Shares	Amount	Contributed surplus
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
Issued on exercise of options	200,250	144,417	(58,558)
Issued on exercise of warrants	139,573	162,386	(25,810)
Stock-based compensation	-	-	642,501
Balance, December 31, 2010	48,745,790	\$ 17,180,460	\$ 4,651,957

(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 is exercisable to acquire one Unit at \$0.78 expiring 24 months after the closing date.

CRH MEDICAL CORPORATION

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

Years ended December 31, 2010 and 2009

7. Share capital (continued):

(b) Issued (continued):

(i) (continued):

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.

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.

CRH MEDICAL CORPORATION

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

Years ended December 31, 2010 and 2009

7. Share capital (continued):

(b) Issued (continued):

A summary of the status of the plan as of December 31, 2010 and December 31, 2009 and changes during each period are as follows (options are granted in CAD and USD amounts calculated using exchange rate at December 31, 2010):

	2010			2009		
	Shares	Weighted average exercise price CAD	Weighted average exercise price USD	Shares	Weighted average exercise price CAD	Weighted average exercise price USD
Outstanding, beginning of year	4,376,188	\$ 1.61	\$ 1.54	2,900,000	\$ 1.93	\$ 1.59
Issued	525,000	1.46	1.41	1,950,000	0.97	0.92
Exercised	(200,250)	0.45	0.38	(345,000)	0.41	0.39
Forfeited and expired	(328,938)	2.33	2.35	(128,812)	2.22	2.12
Outstanding, end of year	4,372,000	\$ 1.55	\$ 1.45	4,376,188	\$ 1.61	\$ 1.54

The following table summarizes information about the stock options outstanding at December 31, 2010:

Exercise price		Options outstanding			Options exercisable			
		Number of contractual options	Weighted average remaining life (years)	Weighted average exercise price CAD	Weighted average exercise price USD	Number of options	Weighted average exercise price CAD	Weighted average exercise price USD
CAD	USD							
\$0.59 - \$0.65	\$0.59 - \$0.65	1,289,000	3.06	\$0.65	\$0.65	564,815	\$0.65	\$0.65
\$1.21 - \$2.14	\$1.22 - \$2.15	1,963,000	2.93	1.75	1.76	839,876	1.99	2.00
\$2.15 - \$3.30	\$2.16 - \$3.32	1,120,000	1.19	2.44	2.45	974,064	2.47	2.48
		4,372,000	2.52	\$1.60	\$1.61	2,378,755	\$1.87	\$1.88

CRH MEDICAL CORPORATION

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

Years ended December 31, 2010 and 2009

7. Share capital (continued):

(c) Stock option plan (continued):

For the year ended December 31, 2010, the Company recognized \$642,501 (2009 - \$710,506) 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 (note 4), 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, 2010 and December 31, 2009 was \$0.79 and \$0.52 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:

	2010	2009
Expected life of options	4 years	4 years
Risk-free interest rate	2.23%	1.7%
Dividend yield	0%	0%
Volatility	73%	87.3%

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, 2010.

	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, 2010 and 2009

7. Share capital (continued):

(d) Common Share Purchase Warrants (continued):

	Number of warrants	Weighted average exercise price	
		CAD	USD
Outstanding, December 31, 2009	2,948,719	\$ 1.00	\$ 0.95
Exercised	(85,000)	1.00	0.98
Outstanding, December 31, 2010	2,863,719	\$ 1.00	\$ 1.01

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	282,146	0.89	0.84
Exercised	(27,287)	0.78	0.74
Outstanding, December 31, 2009	254,859	\$ 0.91	\$ 0.86

	Number of warrants	Weighted average exercise price	
		CAD	USD
Outstanding, December 31, 2009	254,859	\$ 0.91	\$ 0.86
Issued	-	-	-
Exercised	(54,573)	1.00	0.98
Outstanding, December 31, 2010	200,286	\$ 0.88	\$ 0.88

These Agent Warrants were issued as part of the financing 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.

CRH MEDICAL CORPORATION

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

Years ended December 31, 2010 and 2009

8. Income taxes:

The reconciliation of income tax computed at statutory tax rates to income tax expense, using a 38% (2009 - 31%) statutory rate, is:

	2010	2009
Tax recovery at statutory income tax rates	\$ (76,425)	\$ (404,923)
Change in valuation allowance	217,441	811,927
Permanent differences and other	234,567	248,875
Tax rate differences	(375,583)	(655,879)
Income tax expense	\$ -	\$ -

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

	2010	2009
Future income tax assets:		
Non-capital losses available for future periods	\$ 4,688,253	\$ 4,298,914
Future income tax liabilities:		
Property and equipment	15,275	181,495
Intellectual property	(33,277)	(27,599)
	(18,002)	153,896
	4,670,251	4,452,810
Valuation allowance	4,670,251	4,452,810
	\$ -	\$ -

At December 31, 2010, the Company has tax losses of approximately \$8.7 million (2009 - \$8.4 million) from its Canadian operations and \$7.8 million (2009 - \$6.2 million) from its U.S. operations, available to reduce future years' income taxes. The Canadian losses expire from 2011 through 2030 and U.S. tax losses expire from 2025 to 2030.

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.

CRH MEDICAL CORPORATION

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

Years ended December 31, 2010 and 2009

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 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, 2009.

10. Financial instruments:

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

CRH MEDICAL CORPORATION

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

Years ended December 31, 2010 and 2009

10. Financial instruments (continued):

(a) Credit risk (continued):

Although no single patient or physician accounts for more than 10% of the Company's consolidated revenue, approximately 36% 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.

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.

	2010	2009
Total accounts receivable	\$ 732,320	\$ 1,391,918
Less: allowance for doubtful accounts	193,082	349,827
Total accounts receivable, net	\$ 539,238	\$ 1,042,091
Of which:		
Current	\$ 318,696	\$ 517,760
Less than 60 days	98,504	161,552
Less than 90 days	64,661	105,310
Less than 120 days	108,674	84,873
120 days or greater	141,785	522,423
Total accounts receivable	\$ 732,320	\$ 1,391,918

CRH MEDICAL CORPORATION

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Years ended December 31, 2010 and 2009

10. Financial instruments (continued):

(a) Credit risk (continued):

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

	2010	2009
Cash and cash equivalents	\$ 1,792,461	\$ 1,672,512
Accounts receivable	539,238	1,042,091
	<u>\$ 2,331,699</u>	<u>\$ 2,714,603</u>
Continuity of allowance for bad debts:		
Balance, January 1, 2010	\$ 349,827	\$ 481,363
Write-offs	(338,535)	(470,870)
Bad debts	181,790	339,334
Total allowance for bad debts	<u>\$ 193,082</u>	<u>\$ 349,827</u>

(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 90 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, 2010, approximately 0.9% of the Company's sales was made in Canadian dollars and approximately 18% 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 \$92,000 for the year ended December 31, 2010. 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.

CRH MEDICAL CORPORATION

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

Years ended December 31, 2010 and 2009

10. Financial instruments (continued):

(c) Market risk (continued):

(i) Foreign currency risk (continued):

At December 31, 2010, 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 net loss. 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 loss by approximately \$741 for the year ended December 31, 2010, 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 monetary 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, 2010:

Expressed in U.S. dollar equivalent	CAD
Cash and cash equivalents	\$ (145,309)
Accounts receivable	49,888
Accounts payable and other liabilities	373,852

(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.

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Notes to Consolidated Financial Statements
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Years ended December 31, 2010 and 2009

11. Commitments and contingencies:

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

2011	\$ 180,189
2012	57,152
	<hr/>
	\$ 237,341

Rent expense for the year ended December 31, 2010 was \$453,107 (2009 - \$630,084).

- (b) 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.

12. Related party transactions:

The Company paid or accrued fees of \$99,531 (2009 - \$41,449) to Directors of the Company. Additionally, the Company made product sales totaling \$137,852 (2009 - \$63,701) 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.

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Notes to Consolidated Financial Statements
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Years ended December 31, 2010 and 2009

13. 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:

2010	Medical products	Center operations and development (note 4)	Corporate and other	Total
Revenue	\$ 3,645,118	\$ -	\$ -	\$ 3,645,118
Depreciation and amortization	(28,224)	-	(29,773)	(57,997)
Stock-based compensation	(211,542)	-	(356,757)	(568,299)
Expenses	(1,717,035)	-	(1,510,727)	(3,227,762)
Foreign exchange gain (loss) and other items	-	-	(727)	(727)
Net income (loss) before discontinued operations	1,688,317	-	(1,897,984)	(209,667)
Loss from discontinued operations (note 4)	-	(1,407,150)	-	(1,407,150)
Net income (loss)	\$ 1,688,317	\$ (1,407,150)	\$ (1,897,984)	\$ (1,616,817)
Capital expenditures	\$ 12,195	\$ -	\$ -	\$ 12,195
Intellectual property	\$ 243,402	\$ -	\$ -	\$ 243,402
Property and equipment	\$ 84,896	\$ -	\$ 30,221	\$ 115,117
Total assets	\$ 1,092,411	\$ 89,701	\$ 1,956,117	\$ 3,138,229

CRH MEDICAL CORPORATION

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

Years ended December 31, 2010 and 2009

13. Segmented information (continued):

2009	Medical products	Center operations and development	Corporate and other	Total
Revenue	\$ 1,864,728	\$ -	\$ -	\$ 1,864,728
Depreciation and amortization	(64,776)	-	(53,802)	(118,578)
Stock-based compensation	(91,773)	-	(463,522)	(555,295)
Expenses	(974,966)	-	(1,435,289)	(2,410,255)
Foreign exchange gain (loss) and other items	-	-	(342,441)	(342,441)
Net income (loss) before discontinued operations	733,213	-	(2,295,054)	(1,561,841)
Loss from discontinued operations (note 4)	-	(990,506)	-	(990,506)
Net income (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

For the years ended December 31, 2010 and 2009, 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, 2010 and 2009, substantially all of the Company's property and equipment were located in the United States.

At December 31, 2010 and 2009, substantially all of the Company's intellectual property was located in Canada.