CRH Medical Corporation

522 – 999 Canada Place
Vancouver, BC
V6C 3E1

Year Ended December 31, 2011
Financial Report

Trading Information: The TSX Venture Exchange (symbol "CRM")
For Information Contact: Richard Bear, *Chief Financial Officer*
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, 2011

The following discussion and analysis should be read in conjunction with CRH Medical Corporation's (the "Company" or "CRH") audited annual consolidated financial statements and the corresponding notes thereto for the year ended December 31, 2011. The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company's date of transition to IFRS was January 1, 2010. Accordingly, financial data provided in this MD&A has been prepared in accordance with IFRS. Fiscal 2010 comparative results have also been reported under IFRS. For a complete discussion on the Company's adoption of IFRS and its impact on the Company's reported consolidated statements of financial position and statements of operations and comprehensive income please refer to the Company's audited consolidated financial statements for the year ended December 31, 2011 and 2010, together with this MD&A related thereto.

Unless otherwise specified, all financial data is presented in United States dollars. This management discussion and analysis is as of April 20, 2012.

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 currently 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. The Company disclaims any intent or obligations to update or revise publicly any forward-looking statements whether as a result of new information, estimates or options, future events or results or otherwise, unless required to do so by law.

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 not continue to attract Gastroenterologists and other licensed providers to purchase and use the CRH O'Regan System.
- The policies of health insurance carriers in the United States may affect the amount of revenue the Company receives.
- 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 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.
- We may need to raise additional capital to fund future operations.
- Our business may be impacted by health care reform in the United States.
- We may not have the expertise required to expand internationally.

As a single product company, any adverse event directly or indirectly related to the CRH O'Regan System will have a material impact on the Company's financial performance.

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 only 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 prior years the Company operated Centers for Colorectal Health ("Centers"). On December 3, 2010 the Company closed its remaining eight Centers for Colorectal Health. The restructuring of the Company to focus solely on its rapidly growing and profitable direct to physician program has facilitated attaining profitability in 2011.

The Company has financed its cash requirements primarily from revenues generated from the sale of its product directly to physicians and from its Centers, equity financings and a line of credit. The Company's ability to maintain 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.

SELECTED ANNUAL INFORMATION

	2011	**2010**	**2009**
Revenue	$ 5,533,433	$ 3,645,118	$ 1,864,728
Total expenses and other items	4,377,913	3,854,785	3,426,569
Net income (loss) from continuing operations	1,155,520	(209,667)	(1,561,841)
Income (loss) from discontinued operations	42,625	(1,407,150)	(990,506)
Net income (loss)	1,198,145	(1,616,817)	(2,552,347)
Earnings per share			
Continuing operations basic	0.024	(0.004)	(0.033)

Continuing operations diluted	0.023	-	-
Discontinued operations basic and diluted	0.001	(0.029)	(0.021)
Net income basic	0.025	(0.033)	(0.054)
Net income diluted	0.024	-	-
Total assets	4,095,779	3,138,229	3,823,975
Total liabilities	282,022	800,628	734,493

RESULTS OF OPERATIONS

Revenue

Revenues for the year ended December 31, 2011 were $5,533,433 compared to $3,645,118 for the year ended December 31, 2010. 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. As of December 31, 2011 the Company has trained 1,054 physicians to use the O'Regan System, representing 341 clinical practices. This compares to 750 physicians trained, representing 231 clinical practices, as of December 31, 2010. In the future, the Company expects revenue from product sales to continue to increase as we expand our physician network and increase physician use of our technology.

Expenses

Medical product expenses for the year ended December 31, 2011 were $2,609,648 compared to $1,957,281 for the year ended December 31, 2010. The increase in medical product expenses is a result of the increase in product sales. Medical product expense also increased as a result of closing the Company's Centers for Colorectal Health in December 2010. Certain expenses historically shared with the Centers are now being absorbed by medical products. Medical product expenses primarily include employee wages, product cost and support, office expenses, professional fees, and insurance. Medical product expenses also include non-cash stock based compensation and depreciation totaling $134,116 for the year ended December 31, 2011 compared to $240,245 for the year ended December 31, 2010.

Corporate and other expenses for the year ended December 31, 2011 were $1,768,265 compared to $1,897,504 for the year ended December 31, 2010. The decrease in corporate and other expenses is primarily attributable to a decrease in non-cash expenses offset by increases in travel, office and corporate related expense. Corporate and other expenses include non-cash stock based compensation and depreciation totaling $233,273 for the year ended December 31, 2011 compared to $387,950 for the year ended December 31, 2010.

Income (loss) from continuing operations

For the year ended December 31, 2011 the sale of medical products generated income from continuing operations of $1,155,520 compared to loss of $209,667 for the year ended December 31, 2010. The increase in profit from continuing operations is a direct result of increased product sales. As products sales continue to increase, the Company expects income to increase both in terms of total dollars and percentage of product revenue.

Income (loss) from discontinued operations

In December 2010 the Company closed its remaining eight Centers for Colorectal Health and discontinued its Center Operations business segment. Income from discontinued operations for the year ended December 31, 2011 was $42,625 compared to a loss of $1,407,150 for the year ended December 31, 2010. The income from discontinued operations for the year ended December 31, 2011 is a result of greater than anticipated collections of outstanding accounts receivable and lower onetime discontinuation cost estimated and recognized in 2010. The Company does not anticipate any future material discontinuation expense or income related to the closing of the Centers.

Net income (loss)

For the year ended December 31, 2011, the Company recorded net income of $1,198,145 ($0.025 income per share) compared to a net loss of $1,616,817 ($0.033 loss per share) for the year ended December 31, 2010.

SUMMARY OF QUARTERLY RESULTS

The quarterly information provided below is prepared in accordance with IFRS and has not been reviewed by the Company's auditors.

						Net income (loss) and comprehensive income (loss) per share				
Quarter ending	Revenue	Total expenses and other items	Income (loss) from continuing operations	Income (loss) from discontinued operations	Net Income (loss) for the period	Continuing operations basic	Continuing operations diluted	Discontinued operations basic and diluted	Net income basic	Net income diluted
03/31/10	715,622	924,046	(208,424)	(92,458)	(300,882)	(0.004)	-	(0.002)	(0.010)	-
06/30/10	864,611	970,387	(105,776)	(358,580)	(464,356)	(0.002)	-	(0.007)	(0.010)	-
09/30/10	927,775	933,048	(5,273)	(223,646)	(228,919)	(0.000)	-	(0.005)	(0.005)	-
12/31/10	1,137,110	1,027,304	109,806	(732,466)	(622,660)	0.002	0.002	(0.025)	(0.023)	-
03/31/11	1,249,835	1,153,875	95,960	(29,591)	66,369	0.002	0.002	(0.001)	0.001	0.001
06/30/11	1,356,164	1,117,539	238,625	43,686	282,311	0.005	0.004	(0.002)	0.006	0.005
09/30/11	1,399,190	1,115,249	283,941	17,146	301,087	0.006	0.006	0.000	0.006	0.006
12/31/11	1,528,244	991,250	536,994	11,384	548,378	0.011	0.011	0.004	0.012	0.012

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

- 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.
- During the fourth quarter of 2011 the Company made a change in its estimates of 2011 stock compensation calculation which resulted in a one-time recovery of $73,021 in stock compensation. If this change in estimate to stock compensations was retroactively applied to previously reported quarters, income for each quarter would have been:

	03/30/11	06/30/11	09/30/11	12/31/11
Income (loss) for the period	160,011	311,339	340,014	386,781

The 2010 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, 2011 increased 34% to $1,528,244 from $1,137,110 for the same period in 2010. The increase was due to the success of the Company's direct to physician program that provides physicians with the ability to purchase our hemorrhoid banding technology, treatment protocols, marketing and operational experience.

Total expenses for the quarter ended December 31, 2011 decreased to $991,250 from $1,027,304 for the same period in 2010, a decrease of 4%. This decrease is primarily due to a change in estimate of the Company's 2011 stock compensation calculation which resulted in a one-time recovery of $73,021 recorded in the quarter ending December 31, 2011. If the correction to stock compensation was retroactively applied to previously reported quarters total expenses for the quarter ending December 31, 2011 would have be $1,141,463, an increase of 12% compared to the same period in 2010.

Total assets as at December 31, 2011 increased to $4,095,779 from $3,138,229 as at December 31, 2010, an increase of 31%. This increase is the result of cash provided by operations for the year ending December 31, 2011.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2011, the Company had $2,867,296 in cash and cash equivalents compared to $1,792,461 at the end of 2010. At December 31, 2011, working capital was $3,502,591 compared to working capital of $1,979,082 as at December 31, 2010.

The Company has financed its operations primarily from revenues generated from product sales, its Centers, a line of credit against certain of our account receivables, and though equity financings. As of December 31, 2011, the Company has raised approximately $17 million from the sale and issuance of equity securities. Although the Company recorded net earnings for the year ending December 31, 2011, the Company has incurred historical losses, and as at December 31, 2011 had an accumulated deficit of $18,229,899. The Company expects that going forward cash from operating activities will be positive and will be sufficient to fund the current business.

Operating Activities

Cash provided by operating activities was a positive $1,108,537 compared to a negative $90,291 for the year ending December 31, 2010. Cash provided by operating activities of the continuing business was a positive $1,319,627 compared to a positive $141,051 for the year ending December 31, 2010.

Financing Activities

During the year ended December 31, 2011, the Company issued 1,124 common shares on the exercise of 1,124 options for gross proceeds of $663.

As at December 31, 2011, the Company has no material contractual obligations.

OUTSTANDING SHARE CAPITAL

As at December 31, 2011, there were 48,746,914 common shares issued and outstanding for a total of $17,181,474 in share capital.

As at December 31, 2011, there were 4,697,750 options outstanding (of which 1,904,224 were exercisable into common shares), issuable upon the exercise of outstanding stock options, at a weighted-average exercise price of $1.31 per share, and 41,426 common shares reserved for future grant or issuance under the Company's stock option plan.

As at April 20, 2012 there were 48,746,914 common shares issued and outstanding for a total of $17,181,474 in share capital, there are 4,697,750 options outstanding (of which 2,149,886 were exercisable) into common shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of $1.29 per share and 43,176 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

Balances and transactions between the Company and its wholly owned subsidiary have been eliminated on consolidation and are not disclosed in this note. Details of the transaction between the Company and other related parties are disclosed below:

(a) Related party transactions

The Company paid or accrued fees of $99,853 (2010 - $99,531) to Directors of the Company. Additionally, the Company made product sales totaling $166,883 (2010 - $137,852) to three companies owned or controlled by three 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.

(b) Compensation of key management personnel

Key management personnel compensation, including directors, is as follows:

		2011		2010
Salaries, directors' fees and other benefits	$	761,162	$	664,337
Share-based payments		211,142		245,295
	$	972,304	$	909,632

i. Share-based payments represent the fair value of options granted during the year

ii. There were no post employment, termination or other long term benefits paid during the years ending December 31, 2011 and 2010.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed in the prescribed filings and reports filed with the Canadian securities regulatory authorities is recorded, processed, summarized and reported on a timely basis. Controls are also designed to provide reasonable assurance that information required to be disclosed is assimilated and communicated to senior management in a timely manner so that appropriate decisions can be made regarding public disclosure. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures and concluded that they provide reasonable assurance that material information relating to the Company was made known to them and reported as required.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has designed internal controls over financial reporting (ICFR) to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards. Management, including the Company's Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate ICFR, which has been developed based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the COSO framework and concluded that the Company's internal control over financial reporting was effective as of December 31, 2011.

Regardless of how well an internal control system is designed and operated, it can provide only reasonable, not absolute, assurance that all misstatements due to error or fraud will be detected or prevented from occurring in the financial statements due to the inherent limitations of any internal control system.

During 2011, there were no significant changes in the Company's internal controls over financial reporting that have materially affected or are reasonably likely to affect the Company's internal controls over financial reporting except the following. During the fourth quarter of 2011, the Company completed the implementation of a new online system to value stock-based compensation.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS 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) Impairment of long-lived assets:

The Company's intangible assets are comprised of purchased technology, patents and licenses. The cost of the Company's intangible assets is amortized on a straight-line basis over the estimated useful life ranging from 15 to 20 years. Factors considered in estimating the useful life of intangible assets include the expected use of the asset by the Company, legal, regulatory and contractual provisions that may limit the useful life, and the effects of competition. Costs incurred to establish and maintain patents for intellectual property developed internally are expensed in the period incurred.

The Company reviews the carrying value of long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In accordance with IFRS, these evaluations consist of comparing each asset's carrying value with the estimated discounted future net cash flows expected to be generated by the asset. Impairment is considered to exist if the total estimated future discounted cash flows are less than the carrying amount of the assets. The resulting impairment loss is measured and recorded based on the difference between future discounted cash flows and book value.

In accordance with IFRS if, subsequent to impairment, an asset's discounted future net cash flows exceeds its book value, the impairment previously recognized can be reversed. However, the asset's book value cannot exceed what its amortized book value would have been had the impairment not been recognized.

For the year ending December 31, 2011, the Company has not recorded any impairment losses.

(b) Stock-based compensation:

The Company uses the fair-value based method of accounting for share-based compensation for all awards of shares and share options granted. Under the fair value based method, share-based awards to employees are measured at the fair value of the equity instrument issued as of the grant date using the Black-Scholes model and estimated forfeitures. The application of this pricing model requires management to estimate several variables, including the period for which the instrument is expected to be outstanding, price volatility of the Company's stock over the relevant timeframe, the determination of a relevant risk free interest rate, assumption regarding the Company's future dividend rate policy and estimate of the number of awards that will vest. Changes in one or more assumptions could materially impact the value derived for these equity instruments.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective January 1, 2011, Canadian publicly listed entities are required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010. The Company's financial statements for 2011 are the first reporting periods to be prepared in accordance with IFRS.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance, and cash flows of the Company is provided in Note 18 to the consolidated financial statements for the year ended December 31, 2011.

To ensure accurate and efficient reporting under IFRS, the Company implemented an IFRS conversion plan which was designed to identify differences between previous Canadian GAAP and IFRS that affect the Company and any required changes to accounting processes and controls (including information technology systems). No significant impacts were identified in relation to the Company's information systems or day-to-day accounting processes and controls. The Company reviewed its disclosure controls and procedures and updated these as required to ensure that they are appropriate for reporting under IFRS. Reporting in accordance with IFRS has now been embedded into the Company's systems and procedures.

FUTURE CHANGES IN ACCOUNTING POLICIES

IFRS 9 - Financial Instruments:

In November 2009, the IASB issued IFRS 9 - *Financial Instruments*, which is the first step in its project to replace IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 establishes the measurement and classification of financial assets. Under IFRS 9, financial assets are measured either at fair value through earnings or at amortized cost if certain conditions are met. The effective date of this standard is January 1, 2015, but early adoption is permitted. The Company is currently evaluating the impact of IFRS 9 on its financial statements, and expects to apply the standard on January 1, 2015.

IFRS 10 - Consolidated Financial Statements:

In May 2011, the IASB issued IFRS 10 - *Consolidated Financial Statements*. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company expects to apply this standard to its financial statements beginning on January 1, 2013. The adoption of IFRS 10 is not expected to have a significant impact on the Company's consolidated financial statements.

IFRS 12 - Disclosure of Interests in Other Entities:

In May 2011, the IASB issued IFRS 12 - *Disclosure of Interests in Other Entities*. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance, and cash flows. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company expects to apply this standard to its financial statements beginning on January 1, 2013. The adoption of IFRS 12 is not expected to have a significant impact on the Company's consolidated financial statements.

IFRS 13 - Fair Value Measurement

In May 2011, the IASB issued IFRS 13 - *Fair Value Measurement*. The objective of IFRS 13 is to define fair value, set out in a single IFRS the framework for measuring fair value, and establish disclosure requirements regarding fair value measurements. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company expects to apply this standard to its financial statements beginning on January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its financial statements.

IAS 19 - Employee Benefits:

In June 2011, the IASB issued amendments to IAS 19 – *Employee Benefits*. Included in the amendments to IAS 19 are changes in the recognition of actuarial gains and losses, changes to the recognition and measurement of defined benefit pension expense, and enhancements to disclosures about defined benefit plans. The effective date of the amended version of this standard is January 1, 2013, but early adoption is permitted. The Company expects to apply this standard to its financial statements beginning on January 1, 2013. The Company is currently evaluating the impact of amendments to IAS 19 on its financial statements.

IAS 1 – Presentation of Financial Statements:

In June 2011, the IASB issued amendments to IAS 1 - *Presentation of Financial Statements*. The amendments to IAS 1 include a requirement for entities to group items in other comprehensive income based on whether they will or will not be classified to the statement of earnings in the future. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company expects to apply this standard to its financial statements beginning on January 1, 2013. The adoption of these amendments to IAS 1 is not expected to have a significant impact on the Company's consolidated financial statements.

IAS 32 – Financial Instruments: Presentation:

In December 2011, the IASB issued *Offsetting Financial Assets and Liabilities*, an amendment to IAS 32 - *Financial Instruments: Presentation*. The objective of this amendment to IAS 32 is to clarify when an entity has a right to offset financial assets and liabilities. The effective date of this standard is January 1, 2014, but early adoption is permitted. The Company expects to apply this standard to its financial statements beginning on January 1, 2014. The Company is currently evaluating the impact of the amendment to IAS 32 on its financial statements.

IFRS 7 – Financial Instruments: Disclosures:

In December 2011, the IASB issued amendments to IFRS 7 - *Financial Instruments: Disclosures*. The objective of this amendment to IFRS 7 is to enhance disclosures about offsetting of financial assets and financial liabilities. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company expects to apply this standard to its financial statements beginning on January 1, 2013. The Company is currently evaluating the impact of the amendment to IFRS 7 on its financial statements.

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, 2011 and 2010

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 International Financial Reporting Standards, 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.

/s/Edward Wright Chief Executive Officer	/s/Richard Bear Chief Financial Officer

April 19, 2012

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, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of operations and comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 International Financial Reporting Standards, 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 disclosures 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, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP (signed)

Chartered Accountants

April 19, 2012
Vancouver, Canada

CRH MEDICAL CORPORATION

Consolidated Balance Sheets
(Expressed in United States dollars)

	Notes	December 31, 2011	December 31, 2010	January 1, 2010
Assets				
Current assets:				
Cash and cash equivalents		$ 2,867,296	$ 1,792,461	$ 1,672,512
Trade and other receivables	6	487,196	539,238	1,042,091
Prepaid expenses and deposits		119,633	129,332	165,466
Inventories		310,488	318,679	78,275
		3,784,613	2,779,710	2,958,344
Non-current assets:				
Property and equipment	10	105,601	115,117	597,264
Intangible assets	11	205,564	243,402	268,367
		311,165	358,519	865,631
Total assets		$ 4,095,778	$ 3,138,229	$ 3,823,975
Liabilities				
Current liabilities:				
Trade and other payables	7	$ 123,068	$ 159,648	$ 406,477
Other financial liabilities		114,366	314,853	178,711
Employee benefits		44,588	326,127	92,001
Non financial liabilities		-	-	57,304
Total liabilities		282,022	800,628	734,493
Shareholders' equity				
Share capital		17,181,474	17,180,460	16,873,657
Contributed surplus		4,928,953	4,651,957	4,093,824
Accumulated other comprehensive income		(66,772)	(66,772)	(66,772)
Deficit		(18,229,899)	(19,428,044)	(17,811,227)
Total shareholders' equity		3,813,756	2,337,601	3,089,482
Total liabilities and shareholders' equity		$ 4,095,778	$ 3,138,229	$ 3,823,975

Commitments and contingencies (note 16)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Edward Wright"
Edward Wright, Director

"Anthony Holler"
Anthony Holler, Director

CRH MEDICAL CORPORATION

Consolidated Statements of Operations and Comprehensive Income (loss)
(Expressed in United States dollars)

Years ended December 31, 2011 and 2010

	Notes	2011	2010
Revenue:			
Product sales		$ 5,518,367	$ 3,631,177
Other income		15,066	13,941
		5,533,433	3,645,118
Expenses:			
Product sales expense	4	2,609,648	1,957,281
Corporate expense	5	1,768,265	1,897,504
		4,377,913	3,854,785
Income (loss) from continuing operations		1,155,520	(209,667)
Income (loss) from discontinued operations	8	42,625	(1,407,150)
Net income (loss) and comprehensive income (loss)		$ 1,198,145	$ (1,616,817)
Net income (loss) per share:	12(e)		
Continuing operations basic		$ 0.024	$ (0.004)
Continuing operations diluted		0.023	-
Discontinued operations basic		0.001	(0.029)
Discontinued operations diluted		0.001	-
Net income (loss) per share basic		$ 0.025	$ (0.033)
Net income (loss) per share diluted		$ 0.024	$ -
Weighted average shares outstanding: - basic		48,746,587	48,529,064
- diluted		49,262,460	48,529,064

See accompanying notes to consolidated financial statements.

CRH MEDICAL CORPORATION

Consolidated Statement of Changes in Equity
(Expressed in United States dollars)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
Balance as at January 1, 2010	48,405,967	$ 16,873,657	$ 4,093,824	$ (66,772)	$ (17,811,227)	$ 3,089,482
Total comprehensive loss for the period	-	-	-	-	(1,616,817)	(1,616,817)
Transactions with owners, recorded directly in equity:						
Share-based compensation for stock option plan	-	-	642,501	-	-	642,501
Common shares purchased on exercise of stock options	200,250	144,417	(58,558)	-	-	85,859
Common share purchase on warrants exercised	139,573	162,386	(25,810)	-	-	136,576
Balance as at December 31, 2010	48,745,790	17,180,460	4,651,957	(66,772)	(19,428,044)	2,337,601
Total comprehensive income for the period	-	-	-	-	1,198,145	1,198,145
Transactions with owners, recorded directly in equity:						
Share-based compensation for stock option plan	-	-	277,347	-	-	277,347
Common shares purchased on exercise of stock options	1,124	1,014	(351)	-	-	663
Balance as at December 31, 2011	48,746,914	$ 17,181,474	$ 4,928,953	$ (66,772)	$ (18,229,899)	$ 3,813,756

See accompanying notes to consolidated financial statements.

CRH MEDICAL CORPORATION

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

Years ended December 31, 2011 and 2010

	Notes	2011	2010
Cash provided by (used in):			
Operations:			
Net income (loss) from continuing operations		$ 1,155,520	$ (209,667)
Adjustments for:			
Depreciation of property, equipment and intangibles		81,719	57,997
Share based compensation		277,347	568,299
Operating activity before changes in operating assets and liabilities		1,514,586	416,629
Change in trade and other receivables		(37,659)	(185,226)
Change in prepaid expenses and deposits		9,699	(78,543)
Change in inventories		8,191	(240,404)
Change in trade and other payables		29,270	(2,365)
Change in other financial liabilities		28,520	4,477
Change in employee benefits		(232,980)	226,483
Cash provided by operating activities of continuing operations		1,319,627	141,051
Cash used in operating activities of discontinued operations	8	(211,090)	(231,342)
Cash provided by (used in) operating activities		1,108,537	(90,291)
Financing:			
Proceeds from exercise of agent warrants		-	136,576
Proceeds from exercise of stock options		663	85,859
Cash provided by financing activities		663	222,435
Investments:			
Acquisition of property and equipment		(34,365)	-
Acquisition of intellectual property		-	(12,195)
Cash used in investment activities		(34,365)	(12,195)
Increase in cash and cash equivalents		1,074,835	119,949
Cash and cash equivalents, beginning of year		1,792,461	1,672,512
Cash and cash equivalents, end of year		$ 2,867,296	$ 1,792,461

See accompanying notes to consolidated financial statements.

1. Reporting entity:

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 haemorrhoids utilizing its treatment protocol and patented proprietary technology.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These consolidated financial statements have been prepared in accordance with IFRS 1 - *First-Time Adoption of International Financial Reporting Standards*. The Company's consolidated financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles (Previous GAAP). The comparative figures for 2010 have been restated to reflect significant differences between Previous GAAP and IFRS. Reconciliations and descriptions on the transition from Previous GAAP to IFRS and the impact on the consolidated statements of operations and comprehensive income (loss), consolidated balance sheets and consolidated statements of changes in equity are provided in note 18.

The consolidated financial statements were authorized for issue by the Board of Directors on April 19, 2012.

(b) Basis of measurement:

The Company’s consolidated financial statements have been prepared on a going concern and historical cost basis.

(c) Functional and presentation currency:

These consolidated financial statements are presented in United States dollars, which is the Company’s functional currency.

(d) Use of estimates and judgments:

The preparation of the Company’s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

2. Basis of preparation (continued):

(d) Use of estimates and judgments (continued):

Information about critical judgments in applying accounting policies and assumption and estimation uncertainties that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 12(*b*) - Stock option plan

Other areas of judgment and uncertainty relate to the estimation of accruals the estimation of useful lives of property, equipment, and intangible assets and the recoverability of trade receivables.

Reported amounts and note disclosure reflect the overall economic conditions that are most likely to occur and anticipated measures management intends to take. Actual results could differ from those estimates.

The above estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. Significant accounting policies:

The accounting policies have been applied consistently by the subsidiaries of the Company.

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and all subsidiary entities which are controlled by the Company. The Company owns 100% of the outstanding equity in each of its subsidiaries. All intercompany balances and transactions are eliminated on consolidation.

(b) 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 amortized cost and are classified as loans and receivables.

(c) Foreign currency:

Transactions in foreign currencies are translated to the respective functional currencies of the subsidiaries of the Company at exchange rates at the dates of the transactions.

Period end balances of monetary assets and liabilities in foreign currency are translated to the respective functional currencies using period end foreign currency rates. Foreign currency gains and losses arising from settlement of foreign currency transactions are recognized in earnings.

3. Significant accounting policies (continued):

(c) Foreign currency (continued):

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date on which the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(d) Revenue recognition:

Revenue from product sales in the normal course of activities is measured at the fair value of the consideration received or receivable, net of returns and trade discounts. 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, collection is probable and the amount of revenue can be estimated reliably.

(e) Employee benefits:

(*i*) Salaries and short-term employee benefits:

Salaries and short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under cash bonus plans if the Company has a legal or constructive obligation to pay an amount as a result of services rendered by an employee and the obligation can be estimated reliably.

(*ii*) Termination benefits:

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

(f) Inventories:

Inventories are presented at the lower of cost, determined using the first-in first-out method, and net realizable value. Inventory costs include the purchase price and other costs directly related to the acquisition of inventory, and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the Company's ordinary course of business, less the estimated costs of completion and selling expenses.

3. Significant accounting policies (continued):

(g) Property and equipment:

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Where the costs of certain components of an item of property, plant and equipment are significant in relation to the total cost of the item and have different useful lives, they are accounted for and depreciated separately.

The estimated useful lives and the methods of depreciation for the current and comparative periods are as follows:

Asset	Basis	Rate
Computer 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

This most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Estimates for depreciation methods, useful lives and residual values are reviewed at each reporting period-end and adjusted if appropriate.

(h) Intangible assets:

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. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives and are measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets with finite lives are amortized over the following periods:

Asset	Basis	Rate
Intellectual property rights the CRH O'Regan System	Straight-line	15 years
Intellectual property new technology	Straight-line	20 years

3. Significant accounting policies (continued):

(i) Financial instruments:

Financial assets and financial liabilities are initially measured at fair value and are subsequently re-measured based on their classification as described below. Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or liability, other than financial assets and liabilities classified at fair value through earnings, are added or deducted from the fair value of the respective financial asset or financial liability on initial recognition. Transaction costs that are directly attributable to the acquisition of a financial asset or financial liability classified at fair value through earnings are recognized immediately in earnings.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

The Company's financial instruments are classified into the following categories: at fair value through earnings, loans, and receivables, available for sale financial assets and other financial liabilities. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

Financial assets at fair value through earnings are financial assets that are held for trading and include derivative instruments that are not included in a qualifying hedging relationship. Financial assets classified as financial assets at fair value through earnings are initially measured at fair value with any gains or losses arising on re-measurement recognized in earnings.

The Company has classified cash and cash equivalents, trade and other receivables as loans and receivables, and trade and other payables and accrued liabilities as other financial liabilities. Loans and receivables are initially measured at fair value and are subsequently re-measured at amortized cost using the effective interest method, less any impairment losses. Other financial liabilities are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the other categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented within equity. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to income (loss).

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred, and the Company has transferred substantially all of the risks and rewards of ownership.

3. Significant accounting policies (continued):

(j) Impairment:

Financial assets:

A financial asset not carried at fair value through earnings is assessed at each consolidated financial statement reporting date to determine whether there is objective evidence that it is impaired. The Company considers that a financial asset is impaired if objective evidence indicates that one or more loss events had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment test is performed, on an individual basis, for each material financial asset. Other individually non-material financial assets are tested as groups of financial assets with similar risk characteristics. Impairment losses are recognized in net income (loss).

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net income (loss) and reflected in an allowance account against the respective financial asset. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net income (loss).

A permanent impairment loss for an available-for-sale investment is recognized by transferring the cumulative loss previously recognized in other comprehensive income to earnings.

Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount is estimated.

3. Significant accounting policies (continued):

(j) Impairment (continued):

Non-financial assets (continued):

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows from other assets or groups of assets (cash-generating unit). Impairment losses recognized in prior periods are determined at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An asset's carrying amount, increased through reversal of an impairment loss, must not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(k) Income taxes:

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized into earnings except to the extent that it relates to a business combination, or items recognized directly in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable earnings, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

3. Significant accounting policies (continued):

(k) Income taxes (continued):

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Share-based compensation:

The Company records share-based compensation related to employee stock options granted using the fair value based method estimated using the Black-Scholes model. Under this method, compensation cost is measured at fair value at the date of grant and expensed, as employee benefits, over the period in which employees unconditionally become entitled to the award. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

(m) 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.

(n) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(o) Earnings per share:

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the net profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held, if applicable. Diluted EPS is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held if applicable, for the effects of all dilutive potential common shares, which consist of the stock options granted to employees, common share purchase warrants and agents warrants.

3. Significant accounting policies (continued):

(p) Provisions:

Provisions are recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of resources will be required to settle the obligation. Provisions are determined by discounting expected future cash outflows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Management uses judgment to estimate the amount, timing and probability of the liability based on facts known at the reporting date. The unwinding of the discount is recognized as a finance cost.

(q) New standards and interpretations not yet applied:

(i) IFRS 9 - Financial Instruments:

In November 2009, the IASB issued IFRS 9 - *Financial Instruments*, which is the first step in its project to replace IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 establishes the measurement and classification of financial assets. Under IFRS 9, financial assets are measured either at fair value through earnings or at amortized cost if certain conditions are met. The effective date of this standard is January 1, 2015, but early adoption is permitted. The Company is currently evaluating the impact of IFRS 9 on its financial statements, and expects to apply the standard on January 1, 2015.

(ii) IFRS 10 - Consolidated Financial Statements:

In May 2011, the IASB issued IFRS 10 - *Consolidated Financial Statements*. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company expects to apply this standard to its financial statements beginning on January 1, 2013. The adoption of IFRS 10 is not expected to have a significant impact on the Company's consolidated financial statements.

(iii) IFRS 12 - Disclosure of Interests in Other Entities:

In May 2011, the IASB issued IFRS 12 - *Disclosure of Interests in Other Entities*. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance, and cash flows. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company expects to apply this standard to its financial statements beginning on January 1, 2013. The adoption of IFRS 12 is not expected to have a significant impact on the Company's consolidated financial statements.

3. Significant accounting policies (continued):

(q) New standards and interpretations not yet applied (continued):

(iv) IFRS 13 - Fair Value Measurement

In May 2011, the IASB issued IFRS 13 - *Fair Value Measurement*. The objective of IFRS 13 is to define fair value, set out in a single IFRS the framework for measuring fair value, and establish disclosure requirements regarding fair value measurements. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company expects to apply this standard to its financial statements beginning on January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its financial statements.

(v) IAS 19 - Employee Benefits:

In June 2011, the IASB issued amendments to IAS 19 – *Employee Benefits*. Included in the amendments to IAS 19 are changes in the recognition of actuarial gains and losses, changes to the recognition and measurement of defined benefit pension expense, and enhancements to disclosures about defined benefit plans. The effective date of the amended version of this standard is January 1, 2013, but early adoption is permitted. The Company expects to apply this standard to its financial statements beginning on January 1, 2013. The Company is currently evaluating the impact of amendments to IAS 19 on its financial statements.

(vi) IAS 1 – Presentation of Financial Statements:

In June 2011, the IASB issued amendments to IAS 1 - *Presentation of Financial Statements*. The amendments to IAS 1 include a requirement for entities to group items in other comprehensive income based on whether they will or will not be classified to the statement of earnings in the future. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company expects to apply this standard to its financial statements beginning on January 1, 2013. The adoption of these amendments to IAS 1 is not expected to have a significant impact on the Company's consolidated financial statements.

(vii) IAS 32 – Financial Instruments: Presentation:

In December 2011, the IASB issued *Offsetting Financial Assets and Liabilities*, an amendment to IAS 32 - *Financial Instruments: Presentation*. The objective of this amendment to IAS 32 is to clarify when an entity has a right to offset financial assets and liabilities. The effective date of this standard is January 1, 2014, but early adoption is permitted. The Company expects to apply this standard to its financial statements beginning on January 1, 2014. The Company is currently evaluating the impact of the amendment to IAS 32 on its financial statements.

(Expressed in United States dollars)

3. Significant accounting policies (continued):

(q) New standards and interpretations not yet applied (continued):

(viii) IFRS 7 – Financial Instruments: Disclosures:

In December 2011, the IASB issued amendments to IFRS 7 - *Financial Instruments: Disclosures*. The objective of this amendment to IFRS 7 is to enhance disclosures about offsetting of financial assets and financial liabilities. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company expects to apply this standard to its financial statements beginning on January 1, 2013. The Company is currently evaluating the impact of the amendment to IFRS 7 on its financial statements.

4. Product sales expense:

	2011	2010
Employee related	$ 889,600	$ 520,271
Product cost and support	1,257,466	873,038
Office related	160,665	82,971
Insurance	51,445	43,178
Professional fees	116,356	197,578
Depreciation	35,078	28,223
Stock based compensation	99,038	212,022
	$ 2,609,648	$ 1,957,281

5. Corporate expense:

	2011	2010
Employee related	$ 891,102	$ 915,710
Travel and entertainment	97,766	73,361
Office related	188,086	158,967
Insurance	48,231	45,870
Corporate	176,230	161,837
Professional fees	143,577	153,809
Depreciation	44,964	29,773
Stock based compensation	178,309	358,177
	$ 1,768,265	$ 1,897,504

(Expressed in United States dollars)

6. Trade and other receivables:

	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables from continuing operations	$ 481,497	$ 420,633	$ 257,321
Trade receivables from discontinued operations	-	89,701	777,780
Other receivables	5,699	28,904	6,990
	$ 487,196	$ 539,238	$ 1,042,091

7. Trade and other payables:

	December 31, 2011	December 31, 2010	January 1, 2010
Trade payables from continuing operations	$ 123,068	$ 93,798	$ 96,163
Trade payables from discontinued operations	-	65,850	310,314
	$ 123,068	$ 159,648	$ 406,477

8. 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, 2011 and 2010 are summarized below:

	2011	2010
Center operations revenue	$ -	$ 3,428,248
Expenses:		
Center operations	48,146	4,117,793
Depreciation and amortization	-	206,914
	48,146	4,324,707
Impairment of property and equipment	-	243,896
Center closure costs (recovery)	(90,771)	266,795
	$ 42,625	$ (1,407,150)

(Expressed in United States dollars)

8. Discontinued operations (continued):

Net cash flows from discontinued operations are as follows:

	2011	2010
Income (loss) from discontinued operations	$ 42,625	$ (1,407,150)
Add (deduct) items not affecting cash:		
Stock based compensation	-	74,202
Amortization	-	206,914
Asset impairment	-	254,396
Lease inducements	-	(57,304)
	42,625	(928,942)
Changes in non-cash operating working capital:		
Trade receivables	89,701	668,079
Prepaid expenses and deposits	-	114,677
Trade payables	(65,850)	(244,464)
Other financial liabilities	(229,007)	131,665
Employee benefits	(48,559)	7,643
Net cash flows from discontinued operations	$ (211,090)	$ (231,342)

9. Maturities of certain current assets and liabilities:

The Company's current assets and current liabilities include all assets and liabilities that mature within the Company's operating cycle. There are no current assets or liabilities with maturities that extend beyond 12 months.

10. Property and equipment:

	Computer equipment and software	Furniture and equipment	Leasehold improvements	Injection mold	Total
Cost					
Balance as at January 1, 2010	$ 150,814	$ 205,405	$ 955,089	$ 282,172	$ 1,593,480
Additions	-	-	-	-	-
Disposals	(75,286)	(157,089)	(923,737)	-	(1,156,112)
Balance as at December 31, 2010	75,528	48,316	31,352	282,172	437,368
Additions	4,182	30,183	-	-	34,365
Balance as at December, 31, 2011	$ 79,710	$ 78,499	$ 31,352	$ 282,172	$ 471,733

(Expressed in United States dollars)

10. Property and equipment (continued):

	Computer equipment and software	Furniture and equipment	Leasehold improvements	Injection mold	Total
Accumulated depreciation					
Balance as at January 1, 2010	$ 104,748	$ 115,594	$ 601,859	$ 174,015	$ 996,216
Depreciation expense	13,160	16,283	172,926	25,383	227,752
Disposals	(58,454)	(98,299)	(744,964)	-	(901,717)
Balance as at December 31, 2010	59,454	33,578	29,821	199,398	322,251
Depreciation expense	5,652	12,540	306	25,383	43,881
Balance as at December, 31, 2011	$ 65,106	$ 46,118	$ 30,127	$ 224,781	$ 366,132

	Computer equipment and software	Furniture and equipment	Leasehold improvements	Injection mold	Total
Net book value					
December 31, 2011	$ 14,604	$ 32,381	$ 1,225	$ 57,391	$ 105,601
December 31, 2010	16,074	14,738	1,531	82,774	115,117
January 1, 2010	46,066	89,811	353,230	108,157	597,264

11. Intangible assets:

	Patents
Cost	
Balance as at January 1, 2010	$ 475,251
Additions	12,195
Balance as at December 31, 2010	487,446
Additions	-
Balance as at December 31, 2011	$ 487,446

(Expressed in United States dollars)

11. Intangible assets (continued):

		Patents
Accumulated amortization		
Balance as at January 1, 2010	$	206,884
Amortization expense		37,160
Balance as at December 31, 2010		244,044
Amortization expense		37,838
Balance as at December 31, 2011	$	281,822

		Patents
Net book value		
December 31, 2011	$	205,564
December 31, 2010		243,402
January 1, 2010		268,367

12. Share capital:

(a) Authorized:

100,000,000 common shares without par value

(b) Stock option plan:

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

(Expressed in United States dollars)

12. Share capital (continued):

(b) Stock option plan (continued):

A summary of the status of the plan as of December 31, 2011 and 2010 are as follows (options are granted in CAD and USD amounts calculated using exchange rate at December 31, 2011 and 2010):

	Number of options	Weighted average exercise price CAD	Weighted average exercise price USD
Outstanding, January 1, 2010	4,376,188	$ 1.61	$ 1.54
Issued	525,000	1.46	1.41
Exercised	(200,250)	0.45	0.38
Forfeited and expired	(328,938)	2.33	2.35
Outstanding, December 31, 2010	4,372,000	1.60	1.61
Granted	1,657,500	0.61	0.60
Exercised	(1,124)	0.59	0.62
Forfeited and expired	(1,330,626)	2.25	2.27
Outstanding, December 31, 2011	4,697,750	$ 1.07	$ 1.05

The following table summarizes information about the stock options outstanding at December 31, 2011:

Exercise price		Options outstanding				Options exercisable		
CAD	USD	Number of options	Weighted average remaining contractual 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
$0.56 - $0.62	$0.55 - $0.61	1,516,750	4.94	$0.56	$0.55	1,500	$0.59	$0.58
$0.63 - $1.30	$0.62 - $1.27	1,542,500	2.33	0.73	0.73	964,222	0.70	0.69
$1.31 - $2.53	$1.28 - $2.48	1,638,500	2.16	1.85	1.81	938,502	1.99	1.95
		4,697,750	3.11	$1.07	$1.05	1,904,224	$1.34	$1.31

(Expressed in United States dollars)

12. Share capital (continued):

(b) Stock option plan (continued):

As at December 31, 2010:

Exercise price		Options outstanding				Options exercisable		
CAD	USD	Number of options	Weighted average remaining contractual 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
$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

For the year ended December 31, 2011, the Company recognized $277,347 (2010 - $642,501) in compensation expense as a result of stock options awarded and vested. Compensation expense is recorded in the consolidated statement of operations and comprehensive income (loss) and is allocated to center operations expenses (note 8), product sales expenses 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, 2011 and 2010 was $0.31and $0.79 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:

	2011	2010
Expected life of options	4.14 years	4.00 years
Risk-free interest rate	0.76%	2.23%
Dividend yield	0%	0%
Volatility	68%	73%

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.

12. Share capital (continued):

(c) Common Share Purchase Warrants:

USD amounts calculated using exchange rate at December 31, 2011 and 2010.

	Number of warrants	Weighted average exercise price CAD	USD
Outstanding, January 1, 2010	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
Outstanding, December 31, 2011	2,863,719	$ 1.00	$ 0.98

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

(d) Agent Warrants:

USD amounts calculated using exchange rate at December 31, 2011 and 2010.

	Number of warrants	Weighted average exercise price CAD	USD
Outstanding, January 1, 2010	254,859	$ 0.91	$ 0.86
Exercised	(54,573)	1.00	0.98
Outstanding, December 31, 2010	200,286	0.88	0.88
Outstanding, December 31, 2011	200,286	$ 0.88	$ 0.87

(Expressed in United States dollars)

12. Share capital (continued):

(e) Earnings per share:

The calculation of basic earnings per share at December 31, 2011 was based on the net profit (loss) attributable to common shareholders of the Company of $1,198,145 (2010 - $(1,616,817)), and a weighted average number of common shares outstanding of 48,746,587 (2010 - 48,529,064), calculated as follows:

	2011			2010		
	Net earnings	Weighted average number of common shares outstanding	Per share amount	Net earnings (loss)	Weighted average number of common shares outstanding	Per share amount
Continuing operations:						
Earnings per common share:						
Basic	$1,155,520	48,746,587	$ 0.024	$ (209,667)	48,529,064	$ (0.004)
Share options		495,873				
Diluted	$1,155,520	49,242,460	$ 0.023	$ (209,667)	48,529,064	$ (0.004)
Discontinued operations:						
Earnings per common share:						
Basic	$ 42,625	48,746,587	$ 0.001	$ (1,407,150)	48,529,064	$ (0.029)
Share options		495,873				
Diluted	$ 42,625	49,242,460	$ 0.001	$ (1,407,150)	48,529,064	$ (0.029)
Net earnings:						
Earnings per common share:						
Basic	$1,198,145	48,746,587	$ 0.025	$ (1,616,817)	48,529,064	$ (0.033)
Share options		495,873				
Diluted	$1,198,145	49,262,460	$ 0.024	$ (1,616,817)	48,529,064	$ (0.033)

At December 31, 2011, 4,402,163 options (2010 - 4,372,000) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

At December 31, 2011, 2,463,147 common share and agent warrants (2010 - 3,064,005) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

(Expressed in United States dollars)

13. Income taxes:

(a) Current income tax expense:

The reconciliation of income tax computed at statutory tax rates to income tax expense, using a 38% (2010 - 38%) statutory rate, is:

	2011	2010
Tax expense (recovery) at statutory income tax rates	$ 439,098	$ (76,425)
Change in unrecognized temporary differences	416,976	217,441
Permanent differences and other	(697,111)	234,567
Tax rate differences	(158,963)	(375,583)
Income tax expense	$ -	$ -

(b) Recognized deferred tax:

At December 31, 2011, the Company did not have any deferred tax liabilities resulting from temporary differences recognized for financial statement and income tax purposes.

(c) Unrecognized deferred tax:

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

	December 31, 2011	December 31, 2010	January 1, 2010
Future income tax assets:			
Non-capital losses available for future periods	$ 5,075,578	$ 4,688,253	$ 4,298,914
Property and equipment	25,969	15,275	181,495
Future income tax liabilities:			
Intellectual property	(14,319)	(33,277)	(27,599)
Deferred tax asset not recognized	$ 5,087,228	$ 4,670,251	$ 4,452,810

At December 31, 2011, the Company has tax losses of approximately $6.7 million (2010 - $8.7 million) from its Canadian operations and $9.2 million (2010 - $7.8 million) from its U.S. operations, available to reduce future years' income taxes. The Canadian losses expire from 2012 through 2031 and U.S. tax losses expire from 2025 to 2031.

Realization of the deferred 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 probable the future income tax assets will be realized.

14. 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, 2010.

15. Financial instruments:

The Company's financial instruments consist of cash and cash equivalents, trade receivables, trade payables and other financial liabilities. The fair values of these financial instruments approximate carrying value because of their short-term nature. Cash and cash equivalents and trade receivables are classified as loans and receivables, which are measured at amortized cost. trade and other payables and other financial 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 trade receivables. 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 trade receivables 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.

(Expressed in United States dollars)

15. Financial instruments (continued):

(a) Credit risk (continued):

No single physician practice accounts for more than 10% of the Company's consolidated revenue. Credit risk associated with the collection of receivables from physician practices is considered low. 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 trade receivables	$ 507,500	$ 732,320
Less: allowance for doubtful accounts	26,003	193,082
Total trade receivables, net	$ 481,497	$ 539,238
Of which:		
Current	$ 339,145	$ 318,696
Less than 60 days	84,750	98,504
Less than 90 days	41,615	64,661
90 days or greater	41,990	250,459
Total trade receivables	$ 507,500	$ 732,320

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

	2011	2010
Cash and cash equivalents	$ 2,867,296	$ 1,792,461
Trade receivables	487,196	539,238
	$ 3,354,492	$ 2,331,699
Continuity of allowance for bad debts:		
Beginning balance	$ 193,082	$ 349,827
Write-offs	(173,579)	(338,535)
Bad debts	6,500	181,790
Total allowance for bad debts	$ 26,003	$ 193,082

15. Financial instruments (continued):

(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 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, 2011, approximately 2.7% (2010 – 0.9%) of the Company's sales were made in Canadian dollars and approximately 36% (2010 – 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 income by approximately $111,000 (2010 - net loss $92,000) for the year ended December 31, 2011. There would be an equal and opposite impact on the net loss with a 10% point decrease in the value of the Canadian dollar relative to the U.S. dollar.

At December 31, 2011, the Company has Canadian dollar denominated trade receivables which is offset by Canadian dollar denominated trade and other payables. 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 $751 (2010 - $741) for the year ended December 31, 2011, 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.

15. Financial instruments (continued):

(c) Market risk (continued):

(*i*) Foreign currency risk (continued):

The Company is exposed to currency risk of the following:

Expressed in U.S. dollar equivalent		2011		2010
Cash and cash equivalents	$	48,341	$	(145,309)
Trade receivables		21,233		49,888
Trade and other payables and other financial liabilities		100,064		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.

16. Commitments and contingencies:

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

2012	$	57,600

Rent expense for the year ended December 31, 2011 was $88,045 (2010 - $453,107).

(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.

(Expressed in United States dollars)

17. Related party transactions:

Balances and transactions between the Company and its wholly owned subsidiary have been eliminated on consolidation and are not disclosed in this note. Details of the transaction between the Company and other related parties are disclosed below:

(a) Related party transactions:

The Company paid or accrued fees of $99,853 (2010 - $99,531) to Directors of the Company. Additionally, the Company made product sales totaling $166,883 (2010 - $137,852) to three companies owned or controlled by three of the Company's Directors. Transaction terms on sales of goods to related parties are consistent with the terms provided to non-related parties.

(b) Compensation of key management personnel:

Key management personnel compensation, including directors, is as follows:

	2011	2010
Salaries, directors' fees and other benefits	$ 761,162	$ 664,337
Share-based payments	211,142	245,295
	$ 972,304	$ 909,632

(*i*) Share-based payments represent the fair value of options granted during the year

(*ii*) There were no post employment, termination or other long-term benefits paid during the years ending December 31, 2011 and 2010.

18. Transition to IFRS:

These are the Company's first consolidated financial statements prepared in accordance with IFRS. These consolidated financial statements and the opening consolidated balance sheet as at January 1, 2010, being the date of transition, have been prepared in accordance with the accounting policies set out in note 3.

In accordance with IFRS 1, the Company has applied certain optional exemptions available for first time adopters.

18. Transition to IFRS (continued):

IFRS optional exemptions:

(a) Business combinations:

IFRS 1 provides the option to apply IFRS 3 - *Business Combinations*, retrospectively or prospectively from the date of transition. The Company elected to apply the provisions of IFRS 3 prospectively. The Company completed an impairment test on January 1, 2010 and determined that goodwill was not impaired.

IFRS 3 requires that contingent consideration be recognized when certain criteria, which differ from Previous GAAP, have been met. On the date of transition, liabilities have been reclassified.

(b) Property, plant and equipment - deemed cost:

IFRS 1 provides the option to measure property, plant and equipment at deemed cost being the fair value of the asset on the date of transition. The Company elected not to apply fair valuation.

(c) Share-based compensation:

The Company elected to apply IFRS 2, Share-based Payments, to all equity instruments granted after November 7, 2022 that had not vested as of the Transition Date and elected not to apply the standard to any equity instruments issued prior to this date.

IFRS mandatory exemptions:

(a) Use of estimates:

The estimates previously made by the Company under Previous GAAP were not revised for application of IFRS except where necessary to reflect any differences in accounting policies.

18. Transition to IFRS (continued):

Accounting differences:

(a) Financial statements presentation reclassification:

Certain account balances in the consolidated statements of earnings and consolidated balance sheet have been reclassified to conform with IFRS requirements. The reclassifications include the presentation of certain account balances as separate line items and renaming certain account balances to conform with IFRS terminology.

The tables below provide a comparison of Previous GAAP and IFRS.

(*i*) Reconciliation of equity:

There are no differences between the statements of equity presented under IFRS and the statements of equity under Previous GAAP.

(*ii*) Reconciliation of operations and comprehensive income (loss):

There are no differences between net income (loss) and comprehensive income (loss) presented under IFRS and net loss and comprehensive loss under Previous GAAP.

(*iii*) Reconciliation of cash flows:

Cash flows were unaffected by the transition to IFRS for the year ended December 31 2010.

(Expressed in United States dollars)

18. Transition to IFRS (continued):

Accounting differences (continued):

(*iv*) Reconciliation of consolidated balance sheet:

January 1, 2010				
Presentation previous GAAP	Previous GAAP	Presentation reclassification	IFRS	IFRS presentation
Current assets:				
Cash and cash equivalents	$ 1,672,512	$ -	$ 1,672,512	Cash and cash equivalents
Accounts receivable	1,042,091	-	1,042,091	Trade and other receivables
Prepaid expenses and deposits	165,466	-	165,466	Prepaid expenses and deposits
Inventories	78,275	-	78,275	Inventories
	2,958,344	-	2,958,344	
Non-current assets:				
Property and equipment	597,264	-	597,264	Property and equipment
Intangible assets	268,367	-	268,367	Intangible assets
	865,631	-	865,631	
	$ 3,823,975	$ -	$ 3,823,975	
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$ 677,189	$ (270,712)	$ 406,477	Trade and other payables
	-	178,711	178,711	Other financial liabilities
	-	92,001	92,001	Employee benefits
Deferred leasehold	57,304	-	57,304	Non financial liabilities
	734,493	-	734,493	
Shareholders' equity:				
Share capital	16,873,657	-	16,873,657	Share capital
Contributed surplus	4,093,824	-	4,093,824	Contributed surplus
Accumulated other comprehensive income	(66,772)	-	(66,772)	Accumulated other comprehensive income
Retained earnings	(17,811,227)	-	(17,811,227)	Retained earnings
	3,089,482	-	3,089,482	
	$ 3,823,975	$ -	$ 3,823,975	

(Expressed in United States dollars)

18. Transition to IFRS (continued):

Accounting differences (continued):

(a) Financial statements presentation reclassification (continued):

(*iv*) Reconciliation of consolidated balance sheet (continued):

December 31, 2010				
Presentation previous GAAP	Previous GAAP	Presentation reclassification	IFRS	IFRS presentation
Current assets:				
Cash and cash equivalents	$ 1,792,461	$ -	$ 1,792,461	Cash and cash equivalents
Accounts receivable	539,238	-	539,238	Trade and other receivables
Prepaid expenses and deposits	129,332	-	129,332	Prepaid expenses and deposits
Inventories	318,679	-	318,679	Inventories
	2,779,710	-	2,779,710	
Non-current assets:				
Property and equipment	115,117	-	115,117	Property and equipment
Intangible assets	243,402	-	243,402	Intangible assets
	358,519	-	358,519	
	$ 3,138,229	$ -	$ 3,138,229	
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$ 800,628	$ (640,980)	$ 159,648	Trade and other payables
	-	314,853	314,853	Other financial liabilities
	-	326,127	326,127	Employee benefits
Deferred leasehold	-	-	-	Non financial liabilities
	800,628	-	800,628	
Shareholders' equity:				
Share capital	17,180,460	-	17,180,460	Share capital
Contributed surplus	4,651,957	-	4,651,957	Contributed surplus
Accumulated other comprehensive income	(66,772)	-	(66,772)	Accumulated other comprehensive income
Retained earnings	(19,428,044)	-	(19,428,044)	Retained earnings
	2,337,601	-	2,337,601	
	$ 3,138,229	$ -	$ 3,138,229	