

# **CRH Medical Corporation**

**522 – 999 Canada Place**

**Vancouver, BC**

**V6C 3E1**

## **June 30, 2011 Financial Report**

|                                 |  |
|---------------------------------|--|
| <b>Trading Information:</b>     | The TSX Venture Exchange (symbol “CRM”)                                |
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For further information about CRH Medical Corporation, please visit the Company website at [www.crhmedcorp.com](http://www.crhmedcorp.com) or [www.sedar.com](http://www.sedar.com), or email us at [info@crhmedcorp.com](mailto:info@crhmedcorp.com).

# CRH MEDICAL CORPORATION

## MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011

The following discussion and analysis should be read in conjunction with CRH Medical Corporation's (the "Company" or "CRH") unaudited consolidated financial statements as at and for the three and six month period ended June 30, 2011 and 2010 and the audited annual consolidated financial statements and the corresponding notes thereto for the year ended December 31, 2010. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise specified, all financial data is presented in United States dollars. This management discussion and analysis is as of July 29, 2011.

### CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Information included or incorporated by reference in this report may contain forward-looking statements. This information may involve known and unknown risks, uncertainties, and other factors which may cause our actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "plan," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology. Readers are cautioned regarding statements discussing profitability; growth strategies; anticipated trends in our industry; our future financing plans; and our anticipated needs for working capital. Actual events or results may differ materially from those discussed in forward-looking statements. There can be no assurance that the looking statements on information currently forward-looking statements contained in this report will in fact occur. The Company bases its forward-looking statements on information currently available to it, and assumes no obligation to update them. 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 be able 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.
- The Company may not successfully market its products.
- Changes in United States federal or state laws, rules, and regulations.
- Our senior management has been key to our growth, and we may be adversely affected if we lose any member of our senior management.
- Economic dependence on suppliers and our contract manufacturer.
- Changes in the industry and the economy may affect the Company's business.
- Evolving regulation of corporate governance and public disclosure may result in additional corporate expenses.
- We may 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.

## **OVERVIEW**

CRH Medical Corporation specializes in the distribution of innovative medical products directly to physicians. The Company's distribution strategy focuses on physician education, patient outcomes, and patient awareness. CRH creates meaningful relationships with physicians. The Company's first product, the O'Regan System, is a single use, disposable, hemorrhoid technology that is safe and highly effective in treating hemorrhoid grades I – IV. CRH distributes the O'Regan System, treatment protocols, operational and marketing expertise as a complete, turnkey package directly to physicians. The Company's goal is to establish the CRH O'Regan System as the standard for hemorrhoid treatment. In the future the Company expects to identify and incorporate additional products and services into its innovative distribution model.

In addition the Company operated Centers for Colorectal Health ("Centers"). On December 3, 2010 the Company closed its remaining eight Centers for Colorectal Health. The Company anticipates that the restructuring of the Company to focus solely on its rapidly growing and highly profitable direct to physician program will allow CRH to reach its goal of profitability in 2011.

The Company has financed its cash requirements primarily from revenues generated from the sale of its product directly to physicians and from its Centers, equity financings and a line of credit. The Company's ability to realize the carrying value of its assets is dependent on successfully marketing its products directly to physicians and achieving future profitable operations, the outcome of which cannot be predicted at this time. It may be necessary for the Company to raise additional funds for the continuing development of its business plan.

## **RESULTS OF OPERATIONS**

### Revenue

Revenues for the three months ended June 30, 2011 were \$1,356,164 compared to \$864,611 for the three months ended June 30, 2010. Revenues for the six months ended June 30, 2011 were \$2,605,999 compared to \$1,580,233 for the six months ended June 30, 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, training additional physicians and supporting physicians with marketing material and other practice support to increase use of our technology.

As of June 30, 2011 the Company has trained 907 physicians, representing 291 practices in 42 States compared to 583 physicians, representing 183 practices in 32 States as of June 30, 2010. In the future the Company expects revenue from product sales to continue to increase as more physicians are trained and trained physicians increase use of the CRH O'Regan System.

### Expenses

Product sales expenses for the three months ended June 30, 2011 were \$626,804 compared to \$481,573 for the three months ended June 30, 2010. Product sales expenses for the six months ended June 30, 2011 were \$1,309,598 compared to \$909,479 for the six months ended June 30, 2010. The increase in product sales expenses is a result of increased sales of the Company's O'Regan System and the cost to train and support the additional physicians and practices. Product sales expenses primarily include physician wages and travel associated with training, the cost of manufacturing the CRH O'Regan System, cost of quality systems and programs, consulting expenses, web marketing and marketing material expenses, business development and legal expenses. Product sales expenses include non-cash expenses, stock based compensation and depreciation, totaling \$66,993 and \$131,642 for the three and six months ended June 30, 2011 compared to \$65,922 and \$120,067 for the three and six months ended June 30, 2010.

Corporate expenses for the three months ended June 30, 2011 were \$490,735 compared to \$488,814 for the three months ended June 30, 2010. Corporate expenses for the six months ended June 30, 2011 were \$961,816 compared to \$984,954 for the six months ended June 30, 2010. Corporate expenses include payroll and related expenses of the executive management team and investor relations. Corporate expenses also includes cost associated with being a public company including audit fees, listing expenses, legal fees, insurance and board of director cost. Corporate expenses include non-cash expenses, stock based compensation and depreciation, totaling \$78,672 and \$161,787 for the three and six months ended June 30, 2011 compared to \$104,152 and \$214,276 for the three and six months ended June 30, 2010.

#### Profit/loss from continuing operations

For the three months ended June 30, 2011, the Company reported a profit from continuing operations of \$238,625 compared to a loss of \$105,776 for the three months ended June 30, 2010. For the six months ended June 30, 2011 the Company reported a profit from continuing operations of \$334,585 compared to a loss of \$314,200 for the same period in 2010.

#### 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 three months ended June 30, 2011 was \$43,686 compared to a loss of \$358,580 for the three months ended June 30, 2010. For the six months ended June 30, 2011 income from discontinued operations was \$14,096 compared to a loss of \$451,038 for the same period in 2010. The collection of the Company's outstanding patient receivables exceeded previous estimates resulting in income for the current period. The Company expects to continue to incur nominal expenses related to discontinuation operations for the remainder of 2011.

#### Net income/loss

For the three months ended June 30, 2011, the Company reported net income of \$282,311 (\$0.006 and \$0.005 per share basic and diluted) compared to a net loss of \$464,356 (\$0.006 per share basic) for the three months ended June 30, 2010. Net income for the six months ended June 30, 2011 was \$348,681 (\$0.007 and \$0.007 per share basic and diluted) compared to a loss of \$765,238 (\$0.016 per share basic) for the same period in 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.

| Quarter ending | Revenue   | Total expenses and other items | Income (loss) from continuing operations | Income (loss) from discontinued operations | Income (loss) for the period | Net income (loss) per share (basic) |
|----------------|-----------|--------------------------------|--|--|------------------------------|-------------------------------------|
| Sept. 30, 2009 | 477,006   | 756,313                        | (279,307)                                | (150,553)                                  | (429,860)                    | (0.010)                             |
| Dec. 31, 2009  | 562,602   | 1,167,623                      | (605,021)                                | (448,672)                                  | (1,053,693)                  | (0.020)                             |
| Mar. 31, 2010  | 715,622   | 924,046                        | (208,424)                                | (92,458)                                   | (300,882)                    | (0.010)                             |
| June 30, 2010  | 864,611   | 970,387                        | (105,776)                                | (358,580)                                  | (464,356)                    | (0.010)                             |
| Sept. 30, 2010 | 927,775   | 933,048                        | (5,273)                                  | (223,646)                                  | (228,919)                    | (0.005)                             |
| Dec. 31, 2010  | 1,137,110 | 1,027,304                      | 109,806                                  | (732,466)                                  | (622,660)                    | (0.013)                             |
| Mar. 31, 2011  | 1,249,835 | 1,153,875                      | 95,960                                   | (25,891)                                   | 66,369                       | 0.001                               |
| June 30, 2011  | 1,356,164 | 1,117,539                      | 238,625                                  | 43,686                                     | 282,311                      | 0.006                               |

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

- During the fourth quarter of 2009 the Company recorded an impairment of asset charge totaling \$322,462 related to Fecal Occult Blood Test intellectual property and approximately \$200,000 in additional operating expenses related to adjustments to depreciation, bad debt, and the Company's vacation accrual.
- During the fourth quarter of 2010 the Company closed its remaining eight Centers for Colorectal Health and discontinued its Center Operations business segment. The loss from discontinued operations for the year ended December 31, 2010 includes onetime discontinuation cost of \$266,795 and an asset impairment charge of \$243,896.

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

## LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2011, the Company had \$2,243,318 in cash and cash equivalents compared to \$1,792,461 at December 31, 2010. At June 30, 2011, working capital was \$2,617,673 compared to working capital of \$1,979,082 as at December 31, 2010.

The Company has financed its operations primarily from revenues generated from its Centers, sales of products directly to physicians, a line of credit against certain of our account receivables, and through equity financings. As of June 30, 2011, the Company has raised approximately \$17 million from the sale and issuance of equity securities. Prior to 2011 the Company has incurred losses, and as at June 30, 2011 had an accumulated deficit of \$19,079,363. The Company expects that going forward cash from operating activities will be positive and will be sufficient to fund the business.

### Operating Activities

For the three and six months ended June 30, 2011 cash provided by operating activities of continued operations was a positive \$503,876 and \$643,144 respectively compared to a negative \$73,565 and a negative \$225,776 for the three and six months ended June 30, 2010.

For the three and six months ended June 30, 2011 cash provided by operating activities, including operating activities of discontinued operations was a positive \$394,145 and \$454,375 respectively compared to a positive \$34,333 and a negative \$180,561 for the three and six months ended June 30, 2010

### Financing Activities

There were no financing activities for the six months ended June 30, 2011.

### **OUTSTANDING SHARE CAPITAL**

As at June 30, 2011, there were 48,746,914 common shares issued and outstanding for a total of \$17,181,474 in share capital.

As at June 30, 2011, there were 3,921,000 options outstanding (of which 2,232,913 were exercisable) into common shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of \$1.51 per share, and 818,426 common shares reserved for future grant or issuance under the Company's stock option plan.

As at July 29, 2011 there were 48,746,914 common shares issued and outstanding for a total of \$17,181,474 in share capital, there are 3,921,000 options outstanding (of which 2,312,598 were exercisable) into common shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of \$1.64 per share and 818,426 common shares reserved for future grant or issuance under the Company's stock option plan.

### **OFF BALANCE SHEET ARRANGEMENTS**

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

### **TRANSACTIONS WITH RELATED PARTIES**

The Company paid or accrued fees of \$50,883 (2010 - \$51,990) to Directors of the Company. Additionally, the Company made product sales totaling \$80,818 (2010 - \$56,725) to three entities owned or controlled by three of the Company's Directors who are physicians. These transactions are measured at the exchange amount being the amount of consideration established and agreed to by the related parties.

### **TRANSITION TO IFRS**

In February 2008, the Canadian Accounting Standards Board announced the mandatory adoption of IFRS for publicly accountable entities in Canada for the fiscal periods beginning on or after January 1, 2011. Accordingly, this is the first quarter in which we have provided unaudited quarterly financial information in accordance with IFRS, including comparative figures for 2010.

The Company has adopted IFRS effective January 1, 2010 ("the transition date") and has prepared its opening IFRS balance sheet as of that date. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Canadian GAAP. The Company's consolidated financial statements for the year ended December 31, 2011 will be the first annual financial statements of the Company that comply 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 13 of the Unaudited Consolidated Financial Statements for the three and six month periods ended June 30, 2011 and 2010.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity 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:**

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

### **(b) Stock-based compensation:**

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

## **LEGAL PROCEEDINGS**

The Company is a party to a variety of agreements in the ordinary course of business under which it may be obligated to indemnify third parties with respect to certain matters. 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](http://www.crhmedcorp.com) or [www.sedar.com](http://www.sedar.com), or email us at [info@crhmedcorp.com](mailto:info@crhmedcorp.com).

# CRH MEDICAL CORPORATION

Consolidated Statement of Financial Position  
(Unaudited)

As at June 30, 2011, December 31, 2010, and January 1, 2010  
(Expressed in United States dollars)

|  | Note | June 30,<br>2011    | December<br>31, 2010 | January 1,<br>2010  |
|--|------|---------------------|----------------------|---------------------|
| <b>Assets</b>                          |      |                     |                      |                     |
| <b>Current Assets</b>                  |      |                     |                      |                     |
| Cash and cash equivalents              |      | \$ 2,243,318        | \$ 1,792,461         | \$ 1,672,512        |
| Trade and other receivables            | 5    | 537,394             | 539,238              | 1,042,091           |
| Prepaid expenses and deposits          |      | 89,230              | 129,332              | 165,466             |
| Inventories                            |      | 309,791             | 318,679              | 78,275              |
| <b>Total Current assets</b>            |      | <b>3,179,733</b>    | <b>2,779,710</b>     | <b>2,958,344</b>    |
| <b>Non-Current Assets</b>              |      |                     |                      |                     |
| Property and equipment                 | 9    | 93,951              | 115,117              | 597,264             |
| Intangible assets                      | 10   | 224,343             | 243,402              | 268,367             |
| <b>Total Non-Current assets</b>        |      | <b>318,294</b>      | <b>358,519</b>       | <b>865,631</b>      |
| <b>Total Assets</b>                    |      | <b>\$ 3,498,027</b> | <b>\$ 3,138,229</b>  | <b>\$ 3,823,975</b> |
| <b>Liabilities</b>                     |      |                     |                      |                     |
| <b>Current Liabilities</b>             |      |                     |                      |                     |
| Trade and other payables               | 6    | \$ 199,188          | \$ 159,648           | \$ 406,477          |
| Other financial liabilities            |      | 141,805             | 314,853              | 178,711             |
| Employee benefits                      |      | 221,067             | 326,127              | 92,001              |
| Non financial liabilities              |      | -                   | -                    | 57,304              |
| <b>Total Current Liabilities</b>       |      | <b>562,060</b>      | <b>800,628</b>       | <b>734,493</b>      |
| <b>Equity</b>                          |      |                     |                      |                     |
| Share Capital                          |      | 17,181,474          | 17,180,460           | 16,873,657          |
| Contributed surplus                    |      | 4,900,628           | 4,651,957            | 4,093,824           |
| Accumulated other comprehensive income |      | (66,772)            | (66,772)             | (66,772)            |
| Retained earnings                      |      | (19,079,363)        | (19,428,044)         | (17,811,227)        |
| <b>Total Equity</b>                    |      | <b>2,935,967</b>    | <b>2,337,601</b>     | <b>3,089,482</b>    |
| <b>Total Liabilities and Equity</b>    |      | <b>\$ 3,498,027</b> | <b>\$ 3,138,229</b>  | <b>\$ 3,823,975</b> |

See accompanying notes to the consolidated financial statements.

On behalf of the Board,

*"Edward Wright"*

Director

*"Anthony Holler"*

Director



# CRH MEDICAL CORPORATION

Consolidated Statement of Operations and Comprehensive income (loss)  
(Unaudited)

Three and six months ended June 30, 2011 and 2010  
(Expressed in United States dollars)

|  | Note  | Three months ended |                     | Six months ended  |                     |
|--|-------|--------------------|---------------------|-------------------|---------------------|
|  |       | June 30,<br>2011   | June 30,<br>2010    | June 30,<br>2011  | June 30,<br>2010    |
| <b>Revenue</b>   |       |                    |                     |                   |                     |
| Products Sales   |       | \$ 1,352,453       | \$ 861,431          | 2,597,892         | 1,573,018           |
| Other income   |       | 3,711              | 3,180               | 8,107             | 7,215               |
| <b>Total revenue</b>   |       | <b>1,356,164</b>   | <b>864,611</b>      | <b>2,605,999</b>  | <b>1,580,233</b>    |
| <b>Operating Expenses</b>  |       |                    |                     |                   |                     |
| Product Sales Expense  | 3     | 626,804            | 481,573             | 1,309,598         | 909,479             |
| Corporate Expense  | 4     | 490,735            | 488,814             | 961,816           | 984,954             |
| <b>Total operating expenses</b>  |       | <b>1,117,539</b>   | <b>970,387</b>      | <b>2,271,414</b>  | <b>1,894,433</b>    |
| <b>Profit (loss) from Continuing operations</b>                            |       | <b>238,625</b>     | <b>(105,776)</b>    | <b>334,585</b>    | <b>(314,200)</b>    |
| <b>Discontinued Operations</b>   |       |                    |                     |                   |                     |
| Loss (income) from discontinued operations                                 | 7     | (43,686)           | 358,580             | (14,096)          | 451,038             |
| <b>Net income (loss) and comprehensive income (loss)</b>                   |       | <b>\$ 282,311</b>  | <b>\$ (464,356)</b> | <b>\$ 348,681</b> | <b>\$ (765,238)</b> |
| <b>Net income (loss) and comprehensive income (loss) per share</b>         |       |                    |                     |                   |                     |
|  | 11(e) |                    |                     |                   |                     |
| Continuing operations basic  |       | \$ 0.005           | \$ (0.002)          | \$ 0.007          | \$ (0.006)          |
| continuing operations diluted  |       | 0.004              | (0.002)             | 0.006             | -                   |
| Discontinued operations basic  |       | 0.001              | (0.007)             | 0.000             | (0.009)             |
| Discontinued operations diluted  |       | 0.001              | -                   | 0.000             | -                   |
| <b>Net income (loss) and comprehensive income (loss) per share basic</b>   |       |                    |                     |                   |                     |
|  |       | 0.006              | (0.010)             | 0.007             | (0.016)             |
| <b>Net income (loss) and comprehensive income (loss) per share diluted</b> |       |                    |                     |                   |                     |
|  |       | \$ 0.005           | \$ -                | \$ 0.007          | \$ -                |
| <b>Weighted average shares outstanding</b>                                 |       |                    |                     |                   |                     |
|  |       | 48,746,714         | 48,525,718          | 48,746,252        | 48,473,849          |

See accompanying notes to the consolidated financial statements.

# CRH MEDICAL CORPORATION

## Consolidated Statement of Changes in Equity (Unaudited)

Six months ended June 30, 2011, year ended December 31, 2010, and December 31, 2009  
(Expressed in United States dollars)

|   | Note | Number of<br>Shares | Share Capital | Contributed<br>surplus | Accumulated<br>and other<br>comprehensive<br>income | Deficit        | Total       |
|---|------|---------------------|---------------|------------------------|---|----------------|-------------|
| Balance as at December 31, 2009                               |      | 48,405,967          | \$16,873,657  | \$ 4,093,824           | \$ (66,772)   | \$(17,811,227) | \$3,089,482 |
| <b>Total comprehensive loss for the period:</b>               |      | -                   | -             | -                      | -   | (765,238)      | (765,238)   |
| <b>Transactions with owners, recorded directly in equity:</b> |      |                     |               |                        |   |                |             |
| Share-based compensation for stock option plan                |      |                     |               | 348,257                |   |                | 348,257     |
| Common shares purchased on exercise of stock options          |      | 250                 | 224           | (78)                   |   |                | 146         |
| Common share purchase on warrants exercised                   |      | 139,573             | 162,386       | (25,810)               |   |                | 136,576     |
| Balance as at June 30, 2010                                   |      | 48,545,790          | \$17,036,267  | \$4,416,193            | \$ -  | \$(18,576,465) | \$2,809,223 |
| <b>Total comprehensive loss for the period:</b>               |      | -                   | -             | -                      | -   | (851,579)      | (851,579)   |
| <b>Transactions with owners, recorded directly in equity:</b> |      |                     |               |                        |   |                |             |
| Share-based compensation for stock option plan                |      | -                   | -             | 294,244                | -   | -              | 294,244     |
| Common shares purchased on exercise of stock options          |      | 200,000             | 144,193       | (58,480)               |   |                | 85,713      |
| Common share purchase on warrants exercised                   |      | -                   | -             | -                      |   |                | -           |
| Balance as at December 31, 2010                               |      | 48,745,790          | \$17,180,460  | \$4,651,957            | \$ (66,772)   | \$(19,428,044) | \$2,337,601 |
| <b>Total comprehensive income for the period:</b>             |      |                     |               |                        |   | 348,681        | 348,681     |
| <b>Transactions with owners, recorded directly in equity:</b> |      |                     |               |                        |   |                |             |
| Share-based compensation for stock option plan                |      | -                   | -             | 249,022                | -   | -              | 249,022     |
| Common shares purchased on exercise of stock options          |      | 1,124               | 1,014         | (351)                  |   |                | 663         |
| Balance as at June 30, 2011                                   |      | 48,746,914          | \$17,181,474  | \$4,900,628            | \$ (66,772)   | \$(19,079,363) | \$2,935,967 |

See accompanying notes to the consolidated financial statements

# CRH MEDICAL CORPORATION

Consolidated Statement of Cash Flows  
(Unaudited)

Three and six months ended June 30, 2011 and 2010  
(Expressed in United States dollars)

|  | Note | Three months ended |                  | Six months ended |                  |
|--|------|--------------------|------------------|------------------|------------------|
|  |      | June 30,<br>2011   | June 30,<br>2010 | June 30,<br>2011 | June 30,<br>2010 |
| <b>Operating activities:</b>   |      |                    |                  |                  |                  |
| Net Income (loss) from continuing operations                                   |      | \$ 238,625         | \$ (105,776)     | \$ 334,585       | \$ (314,200)     |
| Adjustments for:   |      |                    |                  |                  |                  |
| Depreciation of property, equipment and intangibles                            |      | 26,456             | \$ 11,196        | 44,407           | 32,155           |
| Share based compensation   |      | 119,209            | \$ 158,877       | 249,022          | 302,187          |
| <b>Operating activities before changes in operating assets and liabilities</b> |      | <b>384,290</b>     | <b>64,297</b>    | <b>628,014</b>   | <b>20,142</b>    |
| Change in trade and other receivables  |      | (80,469)           | (65,152)         | (87,857)         | (173,123)        |
| Change in prepaid expenses and deposits  |      | 22,129             | 15,073           | 40,102           | (17,861)         |
| Change in inventories  |      | (56,699)           | 11,624           | 8,888            | (74,664)         |
| Change in trade and other payables   |      | 139,932            | (88,807)         | 105,390          | (60,801)         |
| Change in other financial liabilities  |      | 16,028             | (63,765)         | 5,109            | (34,985)         |
| Change in employee benefits  |      | 78,666             | 53,165           | (56,501)         | 115,516          |
| <b>Cash provided (used) in operating activities of continuing operations</b>   |      | <b>503,876</b>     | <b>(73,565)</b>  | <b>643,144</b>   | <b>(225,776)</b> |
| <b>Cash provided (used) in operating activities of discontinued operations</b> |      | <b>(109,731)</b>   | <b>107,899</b>   | <b>(188,769)</b> | <b>45,216</b>    |
| <b>Cash provided (used) in operating activities</b>                            |      | <b>394,145</b>     | <b>34,333</b>    | <b>454,375</b>   | <b>(180,561)</b> |
| <b>Financing activities</b>  |      |                    |                  |                  |                  |
| Proceeds from exercise of agent warrants                                       |      | -                  | 58,983           | -                | 136,576          |
| Proceeds from exercise of stock options  |      | 663                | 145              | 663              | 145              |
| <b>Cash from financing activities</b>  |      | <b>663</b>         | <b>59,128</b>    | <b>663</b>       | <b>136,721</b>   |
| <b>Investing activities</b>  |      |                    |                  |                  |                  |
| Acquisition of property and equipment  |      | (2,991)            | -                | (4,182)          | -                |
| Acquisition of intellectual property   |      | -                  | -                | -                | (12,195)         |
| <b>Cash flows (used in) investing activities</b>                               |      | <b>(2,991)</b>     | <b>-</b>         | <b>(4,182)</b>   | <b>(12,195)</b>  |
| Net Change in Cash   |      | 391,817            | 93,461           | 450,857          | (56,035)         |
| Cash beginning of period   |      | 1,851,501          | 1,523,016        | 1,792,461        | 1,672,512        |
| Cash end of period   |      | \$2,243,318        | \$1,616,477      | \$2,243,318      | \$1,616,477      |

See accompanying notes to the consolidated financial statements.

# CRH MEDICAL CORPORATION

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

Three and six months ended June 30, 2011 and 2010

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## 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 hemorrhoids utilizing its treatment protocol and patented proprietary technology.

## 2. Basis of preparation:

### (a) Statement of compliance:

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standards (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB) on a basis consistent with the significant accounting policies disclosed in note 2 of the most recent interim financial statements and therefore should be read in conjunction with the condensed consolidated interim financial statements for the period ended March 31, 2011. These condensed consolidated interim financial statements are part of the period covered by the Company's first International Financial Reporting Standards (IFRS) consolidated financial statements for the year ending December 31, 2011 and therefore IFRS 1, *First Time Adoption of IFRS* has been applied. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and were approved and authorized for issue by the Board of Directors on August 2, 2011.

The Company's condensed consolidated interim financial statements were prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) until December 31, 2010. The period ended March 31, 2011, with comparative results for 2010, was the Company's first IFRS condensed consolidated interim financial statements. Canadian GAAP differs from IFRS in some areas and accordingly, the significant accounting policies applied in the preparation of these condensed consolidated interim financial statements have been consistently applied to all periods presented except in instances where IFRS 1 either requires or permits an exemption. An explanation of how the transition from Canadian GAAP to IFRS has affected the reported consolidated statements of income, comprehensive income, financial position, and cash flows of the Company for the period ended June 30, 2010 is provided in note 12. This note includes information on the provisions of IFRS 1 and the exemptions that the Company elected to apply at the date of transition, January 1, 2010, and reconciliations of equity, net income and comprehensive income for the comparative periods ended June 30, 2010. For a summary of the impact of transition from Canadian GAAP to IFRS at the date of transition, January 1, 2010, as well as for the year ended December 31, 2010, refer to note 13 of the condensed consolidated interim financial statements for the first quarter of 2011 ended March 31, 2011.

# CRH MEDICAL CORPORATION

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

Three and six months ended June 30, 2011 and 2010

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## 2. Basis of preparation (continued):

### (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 reported amounts of assets and liabilities and 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.

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 11 (iv) - Stock option plan

Other areas of judgment and uncertainty relate to the estimation of accruals and the recoverability of accounts receivable.

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 regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

# CRH MEDICAL CORPORATION

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

Three and six months ended June 30, 2011 and 2010

### 3. Product sales expense:

For the three months ending June 30,

|                          | 2011              | 2010              |
|--------------------------|-------------------|-------------------|
| Employee related         | \$ 219,050        | \$ 130,607        |
| Product cost and support | 266,408           | 164,665           |
| Office related           | 40,039            | 61,277            |
| Insurance                | 9,221             | 6,117             |
| Professional fees        | 25,093            | 52,985            |
| Depreciation             | 11,981            | 6,817             |
| Stock based compensation | 55,012            | 59,105            |
|                          | <u>\$ 626,804</u> | <u>\$ 481,573</u> |

For the six months ending June 30,

|                          | 2011                | 2010              |
|--------------------------|---------------------|-------------------|
| Employee related         | \$ 463,599          | \$ 243,945        |
| Product cost and support | 543,472             | 346,581           |
| Office related           | 86,996              | 73,729            |
| Insurance                | 28,667              | 11,796            |
| Professional fees        | 50,222              | 113,361           |
| Depreciation             | 19,687              | 13,935            |
| Stock based compensation | 111,955             | 106,132           |
|                          | <u>\$ 1,309,598</u> | <u>\$ 909,479</u> |

### 4. Corporate expense:

For the three months ending June 30,

|                          | 2011              | 2010              |
|--------------------------|-------------------|-------------------|
| Employee related         | \$ 213,706        | \$ 237,671        |
| Travel and entertainment | 23,096            | 19,927            |
| Office related           | 45,425            | 25,251            |
| Insurance                | 14,465            | 12,937            |
| Corporate                | 55,018            | 51,749            |
| Professional fees        | 66,353            | 37,127            |
| Depreciation             | 14,475            | 4,380             |
| Stock based compensation | 64,197            | 99,772            |
|                          | <u>\$ 490,735</u> | <u>\$ 488,814</u> |

# CRH MEDICAL CORPORATION

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

Three and six months ended June 30, 2011 and 2010

## 4. Corporate expense (continued):

For the six months ending June 30,

|                          | 2011       | 2010       |
|--------------------------|------------|------------|
| Employee related         | \$ 448,730 | \$ 486,895 |
| Travel and entertainment | 45,435     | 40,187     |
| Office related           | 88,527     | 79,052     |
| Insurance                | 25,376     | 21,908     |
| Corporate                | 88,467     | 81,373     |
| Professional fees        | 103,494    | 61,263     |
| Depreciation             | 24,720     | 18,221     |
| Stock based compensation | 137,067    | 196,055    |
|                          | \$ 961,816 | \$ 984,954 |

## 5. Trade and other receivables:

|  | June 30,<br>2011 | December 31,<br>2010 | January 1,<br>2011 |
|--|------------------|----------------------|--------------------|
| Trade receivables from continuing operations   | \$ 535,686       | \$ 420,633           | \$ 257,321         |
| Trade receivables from discontinued operations | -                | 89,701               | 777,780            |
| Other receivables                              | 1,708            | 28,904               | 6,990              |
|  | \$ 537,394       | \$ 539,238           | \$ 1,042,091       |

## 6. Trade and other payables:

|   | June 30,<br>2011 | December 31,<br>2010 | January 1,<br>2011 |
|---|------------------|----------------------|--------------------|
| Trade payables from continuing operations   | \$ 199,188       | \$ 93,798            | \$ 96,163          |
| Trade payables from discontinued operations | -                | 65,850               | 310,314            |
|   | \$ 199,188       | \$ 159,648           | \$ 406,477         |

# CRH MEDICAL CORPORATION

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

Three and six months ended June 30, 2011 and 2010

## 7. 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 three and six months ending June 30, 2011 and 2010 are summarized below:

For the three months ending June 30,

|                           | 2011      | 2010         |
|---------------------------|-----------|--------------|
| Center operations revenue | \$ -      | \$ 896,824   |
| Expenses:                 |           |              |
| Center operations         | (43,686)  | 1,255,134    |
| Net income (loss)         | \$ 43,686 | \$ (358,310) |

Net cash flows from discontinued operations for the three months ending June 30,

|   | 2011         | 2010         |
|---|--------------|--------------|
| Income (loss) from discontinued operations  | \$ 43,686    | \$ (358,580) |
| Add (deduct) items not affecting cash:      |              |              |
| Stock based compensation                    | -            | 50,978       |
| Amortization                                | -            | 22,894       |
| Lease inducements                           | -            | (11,393)     |
| Asset impairment                            | -            | 33,925       |
|   | 43,686       | (262,176)    |
| Changes in non-cash working capital:        |              |              |
| Accounts receivable                         | 21,824       | 340,412      |
| Prepaid expenses and deposits               | 14,615       | 635          |
| Trade payables                              | (16,771)     | 39,863       |
| Other financial liabilities                 | (173,085)    | (20,315)     |
| Employee benefits                           | -            | 9,480        |
| Net cash flows from discontinued operations | \$ (109,731) | \$ 107,899   |



# CRH MEDICAL CORPORATION

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

Three and six months ended June 30, 2011 and 2010

## 7. Discontinued operations (continued):

For the six months ending June 30,

|                           | 2011      | 2010         |
|---------------------------|-----------|--------------|
| Center operations revenue | \$ -      | \$ 2,132,522 |
| Expenses:                 |           |              |
| Center operations         | (14,096)  | 2,583,560    |
| Net income (loss)         | \$ 14,096 | \$ (451,038) |

Net cash flows from discontinued operations for the six months ending June 30,

|   | 2011         | 2010         |
|---|--------------|--------------|
| Income (loss) from discontinued operations  | \$ 14,096    | \$ (451,038) |
| Add (deduct) items not affecting cash:      |              |              |
| Stock based compensation                    | -            | 104,151      |
| Amortization                                | -            | 46,069       |
| Lease inducements                           | -            | (21,750)     |
| Asset impairment                            | -            | 33,925       |
|   | 14,096       | (288,643)    |
| Changes in non-cash working capital:        |              |              |
| Accounts receivable                         | 89,701       | 380,445      |
| Prepaid expenses and deposits               | -            | 18,791       |
| Trade payables                              | (65,850)     | (81,923)     |
| Other financial liabilities                 | (178,157)    | (7,029)      |
| Employee benefits                           | (48,559)     | 23,575       |
| Net cash flows from discontinued operations | \$ (188,769) | \$ 45,216    |

## 8. 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.

# CRH MEDICAL CORPORATION

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

Three and six months ended June 30, 2011 and 2010

## 9. Property and equipment:

|                                 | Computer<br>equipment<br>and software | Furniture<br>and<br>equipment | Leasehold<br>improvements | Injection<br>mold | Total       |
|---------------------------------|---------------------------------------|-------------------------------|---------------------------|-------------------|-------------|
| <b>Cost</b>                     |                                       |                               |                           |                   |             |
| 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 of December 31, 2010 | 75,528                                | 48,316                        | 31,352                    | 282,172           | 437,368     |
| Additions                       | 4,182                                 | -                             | -                         | -                 | 4,182       |
| Disposals                       |                                       |                               |                           |                   | -           |
| Balance as of June 30, 2011     | 79,710                                | 48,316                        | 31,352                    | 282,172           | 441,550     |
|                                 | 76,617                                | 34,225                        | 31,351                    | 282,173           | 424,365     |
| <b>Accumulated depreciation</b> |                                       |                               |                           |                   |             |
| 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            | 227,751     |
| Disposals                       | (58,454)                              | (98,299)                      | (744,964)                 | -                 | (901,716)   |
| Balance as of December 31, 2010 | 59,454                                | 33,578                        | 29,821                    | 199,398           | 322,251     |
| Depreciation expense            | 2,619                                 | 9,884                         | 153                       | 12,692            | 25,348      |
| Disposals                       | -                                     | -                             | -                         | -                 | -           |
| Balance as of June 30, 2011     | 62,073                                | 43,462                        | 29,974                    | 212,090           | 347,599     |
| <b>Net book value</b>           |                                       |                               |                           |                   |             |
| June 30, 2011                   | 17,637                                | 4,854                         | 1,378                     | 70,082            | 93,951      |
| 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     |

# CRH MEDICAL CORPORATION

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

Three and six months ended June 30, 2011 and 2010

## 10. Intangible assets:

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|                                 | Patents    |
|---------------------------------|------------|
| <b>Cost</b>                     |            |
| Balance as at January 1, 2010   | \$ 475,251 |
| Additions                       | 12,195     |
| Disposals                       | -          |
| Balance as of December 31, 2010 | 487,446    |
| Additions                       | -          |
| Disposals                       | -          |
| Balance as of June 30, 2011     | \$ 487,446 |

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|                                 | Patents    |
|---------------------------------|------------|
| <b>Accumulated amortization</b> |            |
| Balance as at January 1, 2010   | \$ 206,884 |
| Amortization expense            | 13,160     |
| Disposals                       | -          |
| Balance as of December 31, 2010 | 244,044    |
| Amortization expense            | 19,059     |
| Disposals                       | -          |
| Balance as of June 30, 2011     | \$ 263,103 |

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|                       | Patents    |
|-----------------------|------------|
| <b>Net book value</b> |            |
| June 30, 2011         | \$ 224,343 |
| December 31, 2010     | 243,402    |
| January 1, 2010       | 268,367    |

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# CRH MEDICAL CORPORATION

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

Three and six months ended June 30, 2011 and 2010

## 11. 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.

A summary of the status of the plan as of June 30, 2011 and June 30, 2010 are as follows (options are granted in CAD and USD amounts calculated using exchange rate at June 30, 2011 and June 30, 2010):

|                                | Number of options | Weighted average exercise price |         |
|--------------------------------|-------------------|---------------------------------|---------|
|                                |                   | CAD                             | USD     |
| Outstanding, December 31, 2010 | 4,372,000         | \$ 1.55                         | \$ 1.45 |
| Granted                        | 142,500           | 1.16                            | 1.21    |
| Exercised                      | (1,124)           | 0.59                            | 0.61    |
| Forfeited and expired          | (592,376)         | 2.45                            | 2.54    |
| Outstanding, June 30, 2011     | 3,921,000         | \$ 1.40                         | \$ 1.45 |

|                                | Number of options | Weighted average exercise price |         |
|--------------------------------|-------------------|---------------------------------|---------|
|                                |                   | CAD                             | USD     |
| Outstanding, December 31, 2009 | 4,376,188         | \$ 1.61                         | \$ 1.54 |
| Granted                        | 375,000           | 1.49                            | 1.40    |
| Exercised                      | (250)             | 0.59                            | 0.55    |
| Forfeited and expired          | (17,938)          | 2.56                            | 2.41    |
| Outstanding, June 30, 2010     | 4,733,000         | \$ 1.60                         | \$ 1.50 |

# CRH MEDICAL CORPORATION

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

Three and six months ended June 30, 2011 and 2010

## 11. Share capital (continued):

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

The following table summarizes information about the stock options outstanding at June 30, 2011:

| Exercise price  |                 | Options outstanding |  |                             |                             | Options exercisable |                                     |                                     |  |
|-----------------|-----------------|---------------------|--|-----------------------------|-----------------------------|---------------------|-------------------------------------|-------------------------------------|--|
|                 |                 | Number of options   | Weighted average remaining life in years | Weighted exercise price USD | Weighted exercise price CAD | Number of options   | Weighted average exercise price USD | Weighted average exercise price CAD |  |
| USD             | CAD             |                     |  |                             |                             |                     |                                     |                                     |  |
| \$0.61 - \$1.04 | \$0.59 - \$1.00 | 1,303,000           | 2.61                                     | \$0.68                      | \$0.66                      | 719,065             | \$0.67                              | \$0.65                              |  |
| \$1.24 - \$2.22 | \$1.20 - \$2.14 | 1,828,500           | 2.76                                     | 1.76                        | 1.70                        | 783,972             | 1.97                                | 1.90                                |  |
| \$2.23 - \$2.62 | \$2.15 - \$2.53 | 789,500             | 0.93                                     | 2.30                        | 2.22                        | 729,876             | 2.30                                | 2.21                                |  |
|                 |                 | 3,921,000           | 2.34                                     | \$1.51                      | \$1.46                      | 2,232,913           | \$1.66                              | \$1.60                              |  |

As at June 30, 2010:

| Exercise price  |                 | Options outstanding |  |                             |                             | Options exercisable |                                     |                                     |  |
|-----------------|-----------------|---------------------|--|-----------------------------|-----------------------------|---------------------|-------------------------------------|-------------------------------------|--|
|                 |                 | Number of options   | Weighted average remaining life in years | Weighted exercise price USD | Weighted exercise price CAD | Number of options   | Weighted average exercise price USD | Weighted average exercise price CAD |  |
| USD             | CAD             |                     |  |                             |                             |                     |                                     |                                     |  |
| \$0.42 - \$0.61 | \$0.45 - \$0.65 | 1,490,000           | 3.11                                     | \$ 0.58                     | \$ 0.62                     | 655,628             | \$ 0.55                             | \$ 0.59                             |  |
| \$1.14 - \$1.83 | \$1.21 - \$1.95 | 1,113,000           | 4.31                                     | 1.47                        | 1.56                        | 82,022              | 1.50                                | 1.60                                |  |
| \$1.97 - \$3.10 | \$2.12 - \$3.30 | 2,130,000           | 1.49                                     | 2.18                        | 2.32                        | 1,765,314           | 2.20                                | 2.35                                |  |
|                 |                 | 4,733,000           | 2.66                                     | \$ 1.50                     | \$ 1.60                     | 2,502,944           | \$ 1.75                             | \$ 1.86                             |  |

For the six months ended June 30, 2011, the Company recognized \$249,022 (2010 - \$348,257) in compensation expense as a result of stock options awarded and vested. Compensation expense is recorded in the consolidated statement of operations and is allocated to medical products and corporate expenses on the same basis as the allocations of cash compensation (note 4). For 2010 a portion of the compensation expense is allocated to discontinued operations.

The weighted average fair value of stock options granted during the periods ended June 30, 2011 and 2010 was \$0.61 and \$0.80 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:

# CRH MEDICAL CORPORATION

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

Three and six months ended June 30, 2011 and 2010

## 11. Share capital (continued):

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

|                          | 2011        | 2010         |
|--------------------------|-------------|--------------|
| Expected life of options | 3.76 years  | 4 years      |
| Risk-free interest rate  | 2.04 -2.22% | 2.24 – 2.44% |
| Dividend yield           | 0%          | 0%           |
| Volatility               | 69 -70%     | 74 – 75%     |

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

### (c) Common Share Purchase Warrants:

USD amounts calculated using exchange rate at June 30, 2011 and June 30, 2010.

|                                | Number of warrants | Weighted average exercise price |         |
|--------------------------------|--------------------|---------------------------------|---------|
|                                |                    | CAD                             | USD     |
| Outstanding, December 31, 2010 | 2,863,719          | \$ 1.00                         | \$ 1.01 |
| Exercised                      | -                  | -                               | -       |
| Outstanding, June 30, 2011     | 2,863,719          | \$ 1.00\$                       | \$ 1.04 |

|                                | Number of warrants | Weighted average exercise price |         |
|--------------------------------|--------------------|---------------------------------|---------|
|                                |                    | CAD                             | USD     |
| Outstanding, December 31, 2009 | 2,948,719          | \$ 1.00                         | \$ 0.95 |
| Exercised                      | (139,573)          | 1.00                            | 0.94    |
| Outstanding, June 30, 2010     | 2,809,146          | \$ 1.00                         | \$ 0.94 |

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

# CRH MEDICAL CORPORATION

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

Three and six months ended June 30, 2011 and 2010

## 11. Share capital (continued):

(d) Agent Warrants:

USD amounts calculated using exchange rate at June 30, 2011 and June 30, 2010.

|                                | Number of warrants | Weighted average exercise price |         |
|--------------------------------|--------------------|---------------------------------|---------|
|                                |                    | CAD                             | USD     |
| Outstanding, December 31, 2010 | 200,286            | \$ 0.88                         | \$ 0.88 |
| Exercised                      | -                  | -                               | -       |
| Outstanding, June 30, 2011     | 200,286            | \$ 0.88                         | \$ 0.91 |

  

|                                | Number of warrants | Weighted average exercise price |         |
|--------------------------------|--------------------|---------------------------------|---------|
|                                |                    | CAD                             | USD     |
| Outstanding, December 31, 2009 | 254,859            | \$ 0.91                         | \$ 0.86 |
| Exercised                      | (54,573)           | 1.00                            | 0.94    |
| Outstanding, June 30, 2010     | 200,286            | \$ 0.88                         | \$ 0.83 |

(e) Earnings per share:

The calculation of basic earnings per share for the three and six months ending at June 30, 2011 was based on the net profit (loss) attributable to common shareholders of the Company of \$282,311 and \$348,681 (2010 - (\$464,356) and (\$765,238)), and a weighted average number of common shares outstanding of 48,746,714 and 48,746,252 (2010 - 48,525,718 and 48,473,849), calculated as follows:

# CRH MEDICAL CORPORATION

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

Three and six months ended June 30, 2011 and 2010

## 11. Share capital (continued):

(e) Earnings per share (continued):

|                                 | Three months ended June 30, |  |                  |              |  |                  |
|---------------------------------|-----------------------------|--|------------------|--------------|--|------------------|
|                                 | 2011                        |  |                  | 2010         |  |                  |
|                                 | Net earnings                | Weighted average number of common shares outstanding | Per Share Amount | Net earnings | Weighted average number of common shares outstanding | Per Share Amount |
| <b>Continuing operations:</b>   |                             |  |                  |              |  |                  |
| Earnings per common share:      |                             |  |                  |              |  |                  |
| Basic                           | \$ 238,625                  | 48,746,714   | \$ 0.005         | \$ (105,776) | 48,525,718   | \$ (0.002)       |
| Share options                   |                             | 4,367,005  |                  |              | -  |                  |
| Diluted                         | \$ 238,625                  | 53,113,719   | \$ 0.004         | \$ (105,776) | 48,525,718   | \$ (0.002)       |
| <b>Discontinued operations:</b> |                             |  |                  |              |  |                  |
| Earnings per common share:      |                             |  |                  |              |  |                  |
| Basic                           | \$ 43,686                   | 48,746,714   | \$ 0.001         | \$ (358,580) | 48,525,718   | \$ (0.007)       |
| Share options                   |                             | 4,367,005  |                  |              | -  |                  |
| Diluted                         | \$ 43,686                   | 53,113,719   | \$ 0.001         | \$ (358,580) | 48,525,718   | \$ (0.007)       |
| <b>Net earnings:</b>            |                             |  |                  |              |  |                  |
| Earnings per common share:      |                             |  |                  |              |  |                  |
| Basic                           | \$ 282,311                  | 48,746,714   | \$ 0.006         | \$ (464,356) | 48,525,718   | \$ (0.010)       |
| Share options                   |                             | 4,367,005  |                  |              | -  |                  |
| Diluted                         | \$ 282,311                  | 53,113,719   | \$ 0.005         | \$ (464,356) | 48,525,718   | \$ (0.010)       |

For the three months ended June 30, 2011, 2,643,500 options (2010 - n/a) 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.



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## 11. Share capital (continued):

(e) Earnings per share (continued):

|                                 | Six months ended June 30, |  |                  |              |  |                  |
|---------------------------------|---------------------------|--|------------------|--------------|--|------------------|
|                                 | 2011                      |  |                  | 2010         |  |                  |
|                                 | Net earnings              | Weighted average number of common shares outstanding | Per Share Amount | Net earnings | Weighted average number of common shares outstanding | Per Share Amount |
| <b>Continuing operations:</b>   |                           |  |                  |              |  |                  |
| Earnings per common share:      |                           |  |                  |              |  |                  |
| Basic                           | \$ 334,585                | 48,746,252   | \$ 0.007         | \$ (314,200) | 48,473,849   | \$ (0.006)       |
| Share options                   |                           | 4,367,005  |                  |              | -  |                  |
| Diluted                         | \$ 334,585                | 53,113,257   | \$ 0.006         | \$ (314,200) | 48,473,849   | \$ (0.006)       |
| <b>Discontinued operations:</b> |                           |  |                  |              |  |                  |
| Earnings per common share:      |                           |  |                  |              |  |                  |
| Basic                           | \$ 14,096                 | 48,746,252   | \$ 0.000         | \$ (451,038) | 48,473,849   | \$ (0.009)       |
| Share options                   |                           | 4,367,005  |                  |              | -  |                  |
| Diluted                         | \$ 14,096                 | 53,113,257   | \$ 0.000         | \$ (451,038) | 48,473,849   | \$ (0.009)       |
| <b>Net earnings:</b>            |                           |  |                  |              |  |                  |
| Earnings per common share:      |                           |  |                  |              |  |                  |
| Basic                           | \$ 348,681                | 48,746,252   | \$ 0.007         | \$ (765,238) | 48,473,849   | \$ (0.016)       |
| Share options                   |                           | 4,367,005  |                  |              | -  |                  |
| Diluted                         | \$ 348,681                | 53,113,257   | \$ 0.007         | \$ (765,238) | 48,473,849   | \$ (0.016)       |

For the six months ended June 30, 2011, 2,618,000 options (2010 - n/a) 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.

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## 12. Transition to IFRS:

For a description of the significant IFRS accounting policies, refer to note 3 of the condensed consolidated interim financial statements for the first quarter ended March 31, 2011. Those IFRS accounting policies have been applied in preparing the condensed consolidated interim financial statements for the period ended June 30, 2011, the comparative information presented in these interim financial statements for the three and six month periods ended June 30, 2010 and the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010, the Company's date of transition.

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

### 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, additional liabilities have been recognized with a resulting decrease in opening retained earnings.

#### (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.

### 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.

### 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 adoption of the concept of operating cycle, changes in certain tax concepts, 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.

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## 12. Transition to IFRS (continued):

(i) Reconciliation of equity:

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

(ii) Reconciliation of net earnings:

There are no material differences between net earnings presented under IFRS and net earnings under Previous GAAP.

(iii) Reconciliation of comprehensive income:

There are no material differences between the statements of comprehensive income presented under IFRS and the statements of comprehensive income under Previous GAAP.

(iv) Reconciliation of consolidated statement of financial position:

| June 30, 2011                               |               |                        |                               |              |  |
|---|---------------|------------------------|-------------------------------|--------------|--|
| Previous GAAP Presentation                  | Previous GAAP | Accounting Differences | Presentation Reclassification | IFRS         | IFRS Presentation                      |
| <b>Current assets:</b>                      |               |                        |                               |              |  |
| Cash and cash equivalents                   | \$ 2,243,318  | \$ -                   | \$ -                          | \$ 2,243,318 | Cash and cash equivalents              |
| Trade and other receivables                 | 537,394       | -                      | -                             | 537,394      | Trade and other receivables            |
| Prepaid expenses and deposits               | 89,230        | -                      | -                             | 89,230       | Prepaid expenses and deposits          |
| Inventories                                 | 309,791       | -                      | -                             | 309,791      | Inventories                            |
|   | \$ 3,179,733  | \$ -                   | \$ -                          | \$ 3,179,733 |  |
| <b>Non-current assets:</b>                  |               |                        |                               |              |  |
| Property and equipment                      | 93,951        | -                      | -                             | 93,951       | Property and equipment                 |
| Intangible assets                           | 224,343       | -                      | -                             | 224,343      | Intangible assets                      |
|   | 318,294       | -                      | -                             | 318,294      |  |
|   | \$ 3,498,027  | \$ -                   | \$ -                          | \$ 3,498,027 |  |
| <b>Liabilities and Shareholders' Equity</b> |               |                        |                               |              |  |
| <b>Current Liabilities:</b>                 |               |                        |                               |              |  |
|   |               |                        |                               |              |  |
| Accounts payable and accrued liabilities    | \$ 562,060    | \$ -                   | \$ (362,872)                  | \$ 199,188   | Trade and other payables               |
|   |               |                        | 141,805                       | 141,805      | Other financial liabilities            |
|   |               |                        | 221,067                       | 221,067      | Employee benefits                      |
| Deferred leasehold                          | -             | -                      | -                             | -            | Non financial liabilities              |
|   | \$ 562,060    | \$ -                   | \$ -                          | \$ 562,060   |  |
| <b>Shareholders' equity:</b>                |               |                        |                               |              |  |
| Share Capital                               | 17,181,474    | -                      | -                             | 17,181,474   | Share Capital                          |
| Contributed surplus                         | 4,900,628     | -                      | -                             | 4,900,628    | Contributed surplus                    |
| Accumulated other comprehensive income      | (66,772.00)   | -                      | -                             | (66,772.00)  | Accumulated other comprehensive income |
| Retained earnings                           | (19,079,363)  | -                      | -                             | (19,079,363) | Retained earnings                      |
|   | 2,935,967     | -                      | -                             | 2,935,967    |  |
|   | \$ 3,498,027  | \$ -                   | \$ -                          | \$ 3,498,027 |  |

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## 12. Transition to IFRS (continued):

(iv) Reconciliation of consolidated statement of financial position (continued):

| December 31, 2010                        |               |                        |                               |              |  |   |
|--|---------------|------------------------|-------------------------------|--------------|--|---|
| Previous GAAP Presentation               | Previous GAAP | Accounting Differences | Presentation Reclassification | IFRS         | IFRS Presentation                      |   |
| Current assets:                          |               |                        |                               |              |  |   |
| Cash and cash equivalents                | \$ 1,792,461  | \$ -                   | \$ -                          | \$ 1,792,461 | Cash and cash equivalents              |   |
| Trade and other receivables              | 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      | Other financial liabilities            |   |
|  |               |                        |                               | 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   | (66,772.00)   | -                      | -                             | (66,772.00)  | 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 |  |   |
| June 30, 2010                            |               |                        |                               |              |  |   |
| Previous GAAP Presentation               | Previous GAAP | Accounting Differences | Presentation Reclassification | IFRS         | IFRS Presentation                      |   |
| Current assets:                          |               |                        |                               |              |  |   |
| Cash and cash equivalents                | \$ 1,616,477  | \$ -                   | \$ -                          | \$ 1,616,477 | Cash and cash equivalents              |   |
| Trade and other receivables              | 834,769       | -                      | -                             | 834,769      | Trade and other receivables            |   |
| Prepaid expenses and deposits            | 164,536       | -                      | -                             | 164,536      | Prepaid expenses and deposits          |   |
| Inventories                              | 152,939       | -                      | -                             | 152,939      | Inventories                            |   |
|  | \$ 2,768,721  | \$ -                   | \$ -                          | \$ 2,768,721 |  |   |
| Non-current assets:                      |               |                        |                               |              |  |   |
| Property and equipment                   | 444,391       | -                      | -                             | 444,391      | Property and equipment                 |   |
| Intangible assets                        | 263,203       | -                      | -                             | 263,203      | Intangible assets                      |   |
|  | 707,594       | -                      | -                             | 707,594      |  |   |
|  | \$ 3,476,315  | \$ -                   | \$ -                          | \$ 3,476,315 |  |   |
| Liabilities and Shareholders' Equity     |               |                        |                               |              |  |   |
| Current Liabilities:                     |               |                        |                               |              |  |   |
|  |               |                        |                               |              |  | - |
| Accounts payable and accrued liabilities | \$ 631,538    | \$ -                   | \$(367,785)                   | \$ 263,753   | Trade and other payables               |   |
|  |               |                        |                               | 136,697      | Other financial liabilities            |   |
|  |               |                        |                               | 231,088      | Employee benefits                      |   |
| Deferred leasehold                       | 35,554        | -                      | -                             | 35,554       | Non financial liabilities              |   |
|  | \$ 667,092    | \$ -                   | \$ -                          | \$ 667,092   |  |   |
| Shareholders' equity:                    |               |                        |                               |              |  |   |
| Share Capital                            | 17,010,457    | -                      | -                             | 17,010,457   | Share Capital                          |   |
| Contributed surplus                      | 4,442,003     | -                      | -                             | 4,442,003    | Contributed surplus                    |   |
| Accumulated other comprehensive income   | (66,772.00)   | -                      | -                             | (66,772.00)  | Accumulated other comprehensive income |   |
| Retained earnings                        | (18,576,465)  | -                      | -                             | (18,576,465) | Retained earnings                      |   |
|  | 2,809,223     | -                      | -                             | 2,809,223    |  |   |
|  | \$ 3,476,315  | \$ -                   | \$ -                          | \$ 3,476,315 |  |   |

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## 12. Transition to IFRS (continued):

(iv) Reconciliation of consolidated statement of financial position (continued):

| January 1, 2010                          |               |                        |                               |              |  |  |
|--|---------------|------------------------|-------------------------------|--------------|--|--|
| Previous GAAP Presentation               | Previous GAAP | Accounting Differences | Presentation Reclassification | IFRS         | IFRS Presentation                      |  |
| Current assets:                          |               |                        |                               |              |  |  |
| Cash and cash equivalents                | \$ 1,672,512  | \$ -                   | \$ -                          | \$ 1,672,512 | Cash and cash equivalents              |  |
| Trade and other receivables              | 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      | Other financial liabilities            |  |
|  |               |                        |                               | 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   | (66,772.00)   | -                      | -                             | (66,772.00)  | 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 |  |  |

(v) Reconciliation of consolidated statement of comprehensive income (loss):

| Period                            | Previous GAAP | Accounting Differences | Presentation Reclassification | IFRS        |
|-----------------------------------|---------------|------------------------|-------------------------------|-------------|
| June 30, 2011, three months ended | 282,311       | -                      | -                             | 282,311     |
| June 30, 2011, six months ended   | 348,681       | -                      | -                             | 348,681     |
| December 31, 2010, year ended     | (1,616,817)   | -                      | -                             | (1,616,817) |
| June 30, 2010, three months ended | (464,356)     | -                      | -                             | (464,356)   |
| June 30, 2010, six months ended   | (765,238)     | -                      | -                             | (765,238)   |

(vi) Reconciliation of consolidated statement of changes in equity:

There are no material differences between the statements of comprehensive income presented under IFRS and the statements of comprehensive income under Previous GAAP.

(vii) Reconciliation of consolidated statement of cash flows:

There are no material differences between the statements of comprehensive income presented under IFRS and the statements of comprehensive income under Previous GAAP.

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## **13. Subsequent events:**

These interim consolidated financial statements were approved for issuance by the Board of Directors on August 2, 2011.