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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2020

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-37542

**CRH MEDICAL CORPORATION**

(Exact name of registrant as specified in its charter)

British Columbia, Canada  
(State or other jurisdiction  
of incorporation or organization)

Not Applicable  
(I.R.S. Employer  
Identification Number)

Suite 619 – 999 Canada Place, World Trade Center  
Vancouver, BC V6C 3E1

(Address of principal executive offices, including zip code)

(604) 633-1440

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares, no par value	CRHM	NYSE American

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

The number of outstanding common shares of the registrant, no par value per share, as of November 11, 2020 was 71,413,084.

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**CRH MEDICAL CORPORATION**  
**QUARTERLY REPORT ON FORM 10-Q**  
**For the Quarter Ended September 30, 2020**

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and “forward-looking information” within the meaning of Canadian securities laws, or collectively, forward-looking statements. Forward-looking statements include statements that may relate to our plans, objectives, goals, strategies, future events, future revenue or performance, capital expenditures, financing needs and other information that is not historical information. Many of these statements appear, in particular, under the headings “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements can often be identified by the use of terminology such as “subject to”, “believe,” “anticipate,” “plan,” “expect,” “intend,” “estimate,” “project,” “predict,” “potential,” “may,” “will,” “should,” “would,” “could,” “can,” “continue,” the negatives thereof, variations thereon and similar expressions, or by discussions of strategy. In addition, any statements or information that refer to expectations, beliefs, plans, projections, objectives, performance or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking. In particular, these forward-looking statements include, but are not limited to:

- Our ability to predict developments in the COVID-19 pandemic and its impact to our operations;
- Our ability to predict developments in payment rates and government regulation and manage our operations accordingly;
- Our plans to successfully identify and complete corporate transactions and our other commercialization strategies;
- The size of our addressable markets and our profitability;
- The perceived merit of the CRH O’Regan System and our anesthesiology operations; and
- Our ability to maintain or increase procedure volumes at our existing Ambulatory Surgery Centers (“ASCs”).

All forward-looking statements, including, without limitation, our examination of historical operating trends, are based upon our current expectations and various assumptions. Certain assumptions made in preparing the forward-looking statements include:

- Our ability to maintain our revenues and profit margins under our fee for service contracts and arrangements;
- The absence of material adverse changes in our industry and the global economy;
- Our ability to maintain strong relationships with our ASCs and other customers;
- Our ability to identify, manage and integrate acquisitions;
- Our ability to enforce the non-competition and other restrictive covenants in our agreements;
- Our ability to successfully recruit and retain qualified anesthesia service providers and other independent contractors;
- Our ability to comply with current and future regulatory standards;
- Our ability to protect our intellectual property rights;
- Our continued compliance with third-party intellectual property rights;
- Our ability to manage in an already competitive industry which could become more competitive; and
- Our ability to raise sufficient financing to support continued growth.

We believe there is a reasonable basis for our expectations and beliefs, but forward-looking statements are inherently uncertain. We may not realize our expectations, and our beliefs may not prove correct. Actual results could differ materially from those described or implied by such forward-looking statements. The following uncertainties and factors, among others (including those set forth under “Risk Factors”), could affect future performance and cause actual results to differ materially from those matters expressed in or implied by forward-looking statements:

- Our operations and financial results have been and could be further harmed by the COVID-19 pandemic;
- Changes to payment rates or methods of third-party payors, including United States government healthcare programs, changes to the United States laws and regulations that regulate payments for medical services, the failure of payment rates to increase as our costs increase, or changes to our payor mix, could adversely affect our operating margins and revenues;
- We are subject to decreases in our revenue and profit margin under our fee for service contracts and arrangements, where we bear the risk of changes in volume, payor mix, radiology, anesthesiology, and pathology benefits, and third-party reimbursement rates;

- We may or may not successfully identify and complete corporate transactions on favorable terms or achieve anticipated synergies relating to any acquisitions or alliances, and such acquisitions could result in unforeseen operating difficulties and expenditures, or require significant management resources and significant charges;
- Our senior management has been key to our growth, and we may be adversely affected if we lose any member of our senior management;
- ASCs or other customers may terminate or choose not to renew their agreements with us;
- If we are unable to maintain or increase anesthesia procedure volumes at our existing ASCs, the operating margins and profitability of our anesthesia segment could be adversely affected;
- We may not be able to successfully recruit and retain qualified anesthesia service providers or other independent contractors;
- We may be unable to enforce the non-competition and other restrictive covenants in our agreements;
- We operate in an industry that is subject to extensive federal, state, and local regulation, and changes in law and regulatory interpretations;
- Changes in the medical industry and the economy may affect the Company's business;
- Our failure to comply with U.S. federal and state fraud and abuse laws, including anti-kickback laws and other U.S. federal and state anti-referral laws, could have a material, adverse impact on our business;
- A significant number of our affiliated physicians could leave our affiliated ASCs;
- Our industry is already competitive and could become more competitive;
- Unfavorable economic conditions could have an adverse effect on our business;
- The Company may not be successful in marketing its products and services;
- Failure to manage third-party service providers may adversely affect our ability to maintain the quality of service that we provide;
- Congress or states may enact laws restricting the amount out-of-network providers of services can charge and recover for such services;
- Adverse events related to our product or our services may subject us to risks associated with product liability, medical malpractice or other legal claims, insurance claims, product recalls and other liabilities, which may adversely affect our operations;
- Our dependence on suppliers could have a material adverse effect on our business, financial condition and results of operations;
- We may need to raise additional capital to fund future operations;
- We are subject to various restrictive covenants and events of default under the Credit Facilities;
- The Affordable Care Act ("ACA") and potential changes to it may have a significant effect on our business;
- The Medicare Access and CHIP Reauthorization Act of 2015 ("MACRA") and potential changes to it may have a significant effect on our business;
- Government authorities or other parties may assert that our business practices violate antitrust laws;
- If regulations or regulatory interpretations change, we may be obligated to re-negotiate agreements of our anesthesiologists, anesthesiologists or other contractors;
- Despite current indebtedness levels, we may still be able to incur substantially more debt, which could further exacerbate the risks associated with increased leverage;
- Failure to timely or accurately bill for services could have a negative impact on our net revenue, bad debt expense and cash flow;
- If we or some of our suppliers fail to comply with the FDA's Quality System Regulation and other applicable requirements, our manufacturing or processing operations could be disrupted, our sales and profitability could suffer, and we may become subject to a wide variety of FDA enforcement actions;

- If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, shareholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of our common shares;
- Our industry is the subject of numerous governmental investigations into marketing and other business practices which could result in the commencement of civil and/or criminal proceedings, substantial fines, penalties, and/or administrative remedies, divert the attention of our management, and have an adverse effect on our financial condition and results of operations;
- We may write-off intangible assets;
- If we are unable to manage growth, we may be unable to achieve our expansion strategy;
- The continuing development of our products and provision of our services depends upon us maintaining strong relationships with physicians;
- Significant shareholders of the Company could influence our business operations, and sales of our shares by such significant shareholders could influence our share price;
- We have a legal responsibility to the minority owners of the entities through which we own our anesthesia services business, which may conflict with our interests and prevent us from acting solely in our own best interests;
- Our common shares may be subject to significant price and volume fluctuations;
- Unfavorable changes or conditions could occur in the states where our operations are concentrated;
- We may be subject to a variety of regulatory investigations, claims, lawsuits, and other proceedings;
- Our anesthesia employees and third-party contractors may not appropriately record or document services that they provide;
- If we are unable to adequately protect or enforce our intellectual property, our competitive position could be impaired;
- If there is a change in federal or state laws, rules, regulations, or in interpretations of such federal or state laws, rules or regulations, we may be required to redeem our physician partners' ownership interests in anesthesia companies under the savings clause in our joint venture operating agreements;
- Our employees and business partners may not appropriately secure and protect confidential information in their possession;
- Failure to protect our information technology infrastructure against cyber-based attacks, network security breaches, service interruptions or data corruption could significantly disrupt our operations and adversely affect our business and operating results;
- If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, our share price and trading volume could decline;
- We may be subject to criminal or civil sanctions if we fail to comply with privacy regulations regarding the protection, use and disclosure of patient information;
- Evolving regulation of corporate governance and public disclosure may result in additional expenses and continuing uncertainty;
- Anti-takeover provisions could discourage a third party from making a takeover offer that could be beneficial to our shareholders;
- We are an "emerging growth company" and a "smaller reporting company," and any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to such companies could make our common shares less attractive to investors;
- We do not intend to pay dividends on our common shares, and, consequently, your ability to achieve a return on your investment will depend on appreciation, if any, in the price of our common shares;

- Tax reform could have a material adverse effect on us;
- Income tax audits and changes in our effective income tax rate could affect our results of operations;
- The patent protection for our products may expire before we are able to maximize their commercial value, which may subject us to increased competition and reduce or eliminate our opportunity to generate revenues; and
- We may face exposure to adverse movements in foreign currency exchange rates.

Consequently, forward-looking statements should be regarded solely as our current plans, estimates and beliefs. You should not place undue reliance on forward-looking statements. We cannot guarantee future results, events, levels of activity, performance or achievements. We do not undertake and specifically decline any obligation to update, republish or revise forward-looking statements to reflect future events or circumstances or to reflect the occurrences of unanticipated events, except as required by law.

We own or have rights to trademarks, service marks or trade names that we use in connection with the operation of our business. In addition, our names, logos and website names and addresses are our service marks or trademarks. CRH and the CRH O'Regan System **are registered trademarks**. The other trademarks, trade names and service marks appearing in this Quarterly Report on Form 10-Q are the property of their respective owners. Solely for convenience, the trademarks, service marks, tradenames and copyrights referred to in this Quarterly Report on Form 10-Q are listed without the ©, ® and TM symbols, but we will assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensors to these trademarks, service marks and tradenames.

We express all amounts in this Quarterly Report on [Form 10-Q](#) in U.S. dollars, except where otherwise indicated. References to "\$" and "US\$" are to U.S. dollars and references to "C\$" are to Canadian dollars.

Except as otherwise indicated, references in this Quarterly Report on Form 10-Q to "CRH," the "Company," "we," "us" and "our" refer to CRH Medical Corporation and its consolidated subsidiaries.

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

CRH Medical Corporation

Index to Condensed Consolidated Interim Financial Statements (unaudited)

As of and for the three and nine months ended September 30, 2020 and 2019

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**CRH MEDICAL CORPORATION**

Condensed Consolidated Balance Sheets (unaudited)

(Expressed in United States dollars)

	Notes	September 30, 2020	December 31, 2019
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents		\$ 5,099,498	\$ 6,568,716
Trade and other receivables, net	5	20,358,880	20,041,288
Income tax receivable		3,252,973	1,332,129
Loan to equity investment		1,000	—
Prepaid expenses and deposits		426,589	729,483
Inventories, finished goods		296,070	349,324
		<u>29,435,010</u>	<u>29,020,940</u>
<b>Non-current assets:</b>			
Property and equipment, net		201,959	251,933
Right of use asset	7	1,094,732	214,854
Intangible assets, net	8	168,325,328	163,108,193
Deferred asset acquisition costs		228,777	59,249
Investment	4	2,016,076	—
Deferred tax assets		12,945,311	10,440,100
		<u>184,812,183</u>	<u>174,074,329</u>
<b>Total assets</b>		<b><u>\$ 214,247,193</u></b>	<b><u>\$ 203,095,269</u></b>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Trade and other payables	6	\$ 7,449,298	\$ 6,196,741
Employee benefits		786,115	992,845
Income tax payable		—	28,589
Current portion of lease liability	7	241,742	125,555
Deferred consideration		—	1,868,052
Earn-out obligation	14	686,973	1,063,060
Contract payable - CMS Advance	10	1,808,952	—
Member loan		220,880	68,600
		<u>11,193,960</u>	<u>10,343,442</u>
<b>Non-current liabilities:</b>			
Lease liability	7	865,372	54,300
Contract payable - CMS Advance	10	91,636	—
Contingent liability	4	2,617,110	—
Notes payable and bank indebtedness	11	74,997,205	68,380,345
Deferred tax liabilities		23,786	101,822
		<u>78,595,109</u>	<u>68,536,467</u>
<b>Equity</b>			
Common stock, no par value; 71,461,684 and 71,603,584 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	12	56,268,562	56,056,113
Additional paid-in capital		8,648,801	7,168,156
Accumulated other comprehensive loss		(66,772)	(66,772)
Retained earnings		7,423,053	13,154,981
<b>Total equity attributable to shareholders of the Company</b>		<b><u>72,273,644</u></b>	<b><u>76,312,478</u></b>
Non-controlling interest		52,184,480	47,902,882
<b>Total equity</b>		<b><u>124,458,124</u></b>	<b><u>124,215,360</u></b>
<b>Total liabilities and equity</b>		<b><u>\$ 214,247,193</u></b>	<b><u>\$ 203,095,269</u></b>

See accompanying notes to condensed consolidated financial statements.  
Commitments and contingencies (note 15)



**CRH MEDICAL CORPORATION**

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (unaudited)

(Expressed in United States dollars, except share and per share data)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
<b>Revenue:</b>					
Anesthesia services	17	\$ 27,983,903	\$ 27,966,629	\$ 63,561,613	\$ 82,685,905
Product sales	17	2,365,549	2,448,174	5,827,537	7,330,147
		<u>30,349,452</u>	<u>30,414,803</u>	<u>69,389,150</u>	<u>90,016,052</u>
<b>Expenses:</b>					
Anesthesia services expense	17	26,963,897	23,774,049	70,580,981	69,804,891
Product sales expense	17	1,080,861	1,089,316	3,025,258	3,441,207
Corporate expense	17	2,219,867	1,838,812	6,344,402	4,645,347
		<u>30,264,625</u>	<u>26,702,177</u>	<u>79,950,641</u>	<u>77,891,445</u>
Operating income (loss)		84,827	3,712,626	(10,561,491)	12,124,607
Net finance expense	13	441,967	1,125,410	1,386,007	5,696,343
(Gain) loss from equity investment	9	—	(77,278)	37,839	(416,584)
Other income	10	(289,669)	—	(5,146,488)	—
Income (loss) before tax		(67,471)	2,664,494	(6,838,849)	6,844,848
Income tax expense (recovery)		(376,237)	565,165	(1,584,165)	736,052
Net and comprehensive income (loss)		<u>\$ 308,766</u>	<u>\$ 2,099,329</u>	<u>\$ (5,254,684)</u>	<u>\$ 6,108,796</u>
<b>Attributable to:</b>					
Shareholders of the Company		\$ (337,954)	\$ 982,368	\$ (5,324,264)	\$ 2,552,084
Non-controlling interest		646,720	1,116,961	69,580	3,556,712
		<u>\$ 308,766</u>	<u>\$ 2,099,329</u>	<u>\$ (5,254,684)</u>	<u>\$ 6,108,796</u>
<b>Earnings (loss) per share attributable to shareholders</b>					
Basic	12(f)	\$ (0.005)	\$ 0.014	\$ (0.074)	\$ 0.036
Diluted	12(f)	<u>\$ (0.005)</u>	<u>\$ 0.013</u>	<u>\$ (0.074)</u>	<u>\$ 0.035</u>
<b>Weighted average shares outstanding:</b>					
Basic	12(f)	71,506,045	71,831,356	71,558,371	71,845,812
Diluted	12(f)	<u>71,506,045</u>	<u>72,799,142</u>	<u>71,558,371</u>	<u>73,023,144</u>

See accompanying notes to condensed consolidated financial statements.

**CRH MEDICAL CORPORATION**

Condensed Consolidated Statements of Changes in Equity (unaudited)

(Expressed in United States dollars, except for number of shares)

For the three and nine months ended September 30, 2020 and 2019

	Number of shares	Common stock	Additional paid -in capital	Accumulated other comprehensive loss	Retained earnings	Non-controlling interest	Total equity
Balance as at January 1, 2019	72,055,688	\$ 55,372,884	\$ 9,329,335	\$ (66,772)	\$ 12,916,565	\$ 59,739,165	\$ 137,291,177
Total net and comprehensive income (loss) for the period	—	—	—	—	(76,968)	1,467,758	1,390,790
Stock-based compensation	—	—	564,251	—	—	—	564,251
Common shares issued on vesting of share units	2,500	8,235	(8,235)	—	—	—	—
Common shares repurchased in connection with normal course issuer bid and cancelled (note 12(e))	(461,600)	(347,300)	—	—	(1,063,523)	—	(1,410,823)
Common shares repurchased in connection with normal course issuer bid and held as treasury shares (27,000 treasury shares) (note 12(e))	—	(20,291)	—	—	(62,205)	—	(82,496)
Cancellation of treasury shares	(10,400)	—	—	—	—	—	—
Distributions to members	—	—	—	—	—	(4,034,800)	(4,034,800)
Balance as at March 31, 2019	<u>71,586,188</u>	<u>\$ 55,013,528</u>	<u>\$ 9,885,351</u>	<u>\$ (66,772)</u>	<u>\$ 11,713,869</u>	<u>\$ 57,172,123</u>	<u>\$ 133,718,099</u>
Total net and comprehensive income for the period	—	—	—	—	1,646,683	971,992	2,618,675
Stock-based compensation	—	—	(990,382)	—	—	—	(990,382)
Common shares issued on exercise of stock options	825,000	721,415	(301,803)	—	—	—	419,612
Common shares issued on vesting of share units	111,500	371,870	(371,870)	—	—	—	—
Cancellation of treasury shares (held as treasury as of March 31, 2019)	(27,000)	—	—	—	—	—	—
Common shares repurchased in connection with normal course issuer bid and cancelled (note 12(e))	(461,830)	(347,065)	—	—	(967,868)	—	(1,314,933)
Common shares repurchased in connection with normal course issuer bid and held as treasury shares (23,000 treasury shares) (note 12(e))	—	(17,284)	—	—	(48,208)	—	(65,492)
Distributions to members	—	—	—	—	—	(4,153,860)	(4,153,860)
Purchase of equity interest from non-controlling interest (note 4)	—	—	(728,279)	—	—	(1,687,070)	(2,415,349)
NCI associated with asset acquisitions (note 4)	—	—	—	—	—	1,465,715	1,465,715
Balance as at June 30, 2019	<u>72,033,858</u>	<u>55,742,464</u>	<u>7,493,017</u>	<u>(66,772)</u>	<u>12,344,476</u>	<u>53,768,900</u>	<u>129,282,085</u>
Total net and comprehensive income for the period	—	—	—	—	982,368	1,116,961	2,099,329
Stock-based compensation	—	—	706,479	—	—	—	706,479
Common shares issued on exercise of stock options	15,000	11,749	(4,997)	—	—	—	6,752
Common shares issued on vesting of share units	36,250	133,047	(133,047)	—	—	—	—
Cancellation of treasury shares (held as treasury as of June 30, 2019)	(23,000)	—	—	—	—	—	—
Common shares repurchased in connection with normal course issuer bid and cancelled (note 12(e))	(365,549)	(274,708)	—	—	(779,660)	—	(1,054,368)
Common shares repurchased in connection with normal course issuer bid and held as treasury shares (19,000 treasury shares) (note 12(e))	—	(14,279)	—	—	(40,523)	—	(54,802)
Distributions to members	—	—	—	—	—	(3,615,819)	(3,615,819)
Purchase of equity interest from non-controlling interest (note 4)	—	—	(996,669)	—	—	(5,989,822)	(6,986,491)
NCI associated with asset acquisitions, including LWA price adjustment (note 4)	—	—	—	—	—	(2,106,037)	(2,106,037)
Balance as at September 30, 2019	<u>71,696,559</u>	<u>\$ 55,598,273</u>	<u>\$ 7,064,783</u>	<u>\$ (66,772)</u>	<u>\$ 12,506,661</u>	<u>\$ 43,174,183</u>	<u>\$ 118,277,128</u>

**CRH MEDICAL CORPORATION**

Condensed Consolidated Statements of Changes in Equity (continued) (unaudited)

(Expressed in United States dollars, except for number of shares)

For the three and nine months ended September 30, 2020 and 2019

	Number of shares	Common stock	Additional paid -in capital	Accumulated other comprehensive loss	Retained earnings	Non-controlling interest	Total equity
Balance as at January 1, 2020	71,603,584	\$ 56,056,113	\$ 7,168,156	\$ (66,772)	\$ 13,154,981	\$ 47,902,882	\$ 124,215,360
Total net and comprehensive loss for the period	—	—	—	—	(2,078,494)	(56,463)	(2,134,957)
Stock-based compensation	—	—	652,548	—	—	—	652,548
Common shares issued on vesting of share units	50,000	139,105	(139,105)	—	—	—	—
Common shares repurchased in connection with normal course issuer bid and cancelled (note 12(e))	(74,300)	(57,700)	—	—	(65,699)	—	(123,399)
Common shares repurchased in connection with normal course issuer bid and held as treasury shares (2,700 treasury shares) (note 12(e))	—	(2,029)	—	—	(2,387)	—	(4,416)
Adjustment in respect of prior year acquisition (note 4)	—	—	25,949	—	—	—	25,949
Distributions to members	—	—	—	—	—	(2,229,510)	(2,229,510)
<b>Balance as at March 31, 2020</b>	<b>71,579,284</b>	<b>\$ 56,135,489</b>	<b>\$ 7,707,548</b>	<b>\$ (66,772)</b>	<b>\$ 11,008,401</b>	<b>\$ 45,616,909</b>	<b>\$ 120,401,575</b>
Total net and comprehensive loss for the period	—	—	—	—	(2,907,814)	(520,678)	(3,428,492)
Stock-based compensation	—	—	595,445	—	—	—	595,445
Common shares issued on exercise of stock options	25,000	19,007	(8,327)	—	—	—	10,680
Common shares issued on vesting of share units	60,000	171,069	(171,069)	—	—	—	—
Cancellation of treasury shares (held as treasury as of March 31, 2020)	(2,700)	—	—	—	—	—	—
Common shares repurchased in connection with normal course issuer bid and cancelled (note 12(e))	(97,000)	(75,242)	—	—	(122,183)	—	(197,425)
Common shares repurchased in connection with normal course issuer bid and held as treasury shares (14,900 treasury shares) (note 12(e))	—	(11,558)	—	—	(18,768)	—	(30,326)
Distributions to members	—	—	—	—	—	(2,506,600)	(2,506,600)
NCI associated with asset acquisitions (note 4)	—	—	—	—	—	2,855,352	2,855,352
<b>Balance as at June 30, 2020</b>	<b>71,564,584</b>	<b>\$ 56,238,765</b>	<b>\$ 8,123,597</b>	<b>\$ (66,772)</b>	<b>\$ 7,959,636</b>	<b>\$ 45,444,983</b>	<b>\$ 117,700,209</b>
Total net and comprehensive income (loss) for the period	—	—	—	—	(337,954)	646,720	308,766
Stock-based compensation	—	—	652,967	—	—	—	652,967
Common shares issued on vesting of share units	37,500	127,763	(127,763)	—	—	—	—
Cancellation of treasury shares (held as treasury as of June 30, 2020)	(14,900)	—	—	—	—	—	—
Common shares repurchased in connection with normal course issuer bid and cancelled (note 12(e))	(125,500)	(97,345)	—	—	(197,371)	—	(294,716)
Common shares repurchased in connection with normal course issuer bid and held as treasury shares (800 treasury shares) (note 12(e))	—	(621)	—	—	(1,258)	—	(1,879)
Distributions to members	—	—	—	—	—	(3,952,150)	(3,952,150)
NCI associated with asset acquisitions (note 4)	—	—	—	—	—	10,044,927	10,044,927
<b>Balance as at September 30, 2020</b>	<b>71,461,684</b>	<b>\$ 56,268,562</b>	<b>\$ 8,648,801</b>	<b>\$ (66,772)</b>	<b>\$ 7,423,053</b>	<b>\$ 52,184,480</b>	<b>\$ 124,458,124</b>

See accompanying notes to condensed consolidated financial statements.

**CRH MEDICAL CORPORATION**

Condensed Consolidated Statements of Cash Flows (unaudited)

(Expressed in United States dollars)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
<b>Operating activities:</b>					
Net income (loss)		\$ 308,766	\$ 2,099,329	\$ (5,254,684)	\$ 6,108,796
Adjustments for:					
Depreciation of property, equipment and intangibles		10,760,397	8,555,909	29,686,467	25,974,283
Stock-based compensation	12	652,967	706,479	1,900,960	280,348
Unrealized foreign exchange		6,144	(50)	7,745	726
Deferred income tax recovery		(968,387)	(776,300)	(2,358,260)	(2,749,616)
Change in fair value of contingent consideration	13	(96,294)	181,805	(376,087)	2,771,238
Accretion on contingent consideration and deferred consideration	13	15,925	10,145	32,833	123,305
Amortization of deferred financing fees	13	90,411	65,091	269,424	195,273
(Gain) loss from equity investment	9	—	(77,278)	37,839	(416,584)
Change in current tax receivable		(1,699,529)	(17,826)	(2,174,418)	(154,474)
Change in trade and other receivables		(820,666)	(182,433)	(317,593)	(102,733)
Change in prepaid expenses		102,542	(59,218)	302,894	268,162
Change in inventories		(31,017)	153,837	53,254	45,309
Change in trade and other payables, including contract payable		(640,539)	(83,936)	3,192,069	91,726
Change in employee benefits		135,957	135,609	(206,730)	234,120
Net cash provided by operating activities		7,816,677	10,711,163	24,795,713	32,669,879
<b>Financing activities</b>					
Proceeds from (repayment of) member loans		(28,100)	(14,375)	152,280	(18,375)
Equity investment loan		(1,000)	—	(1,000)	—
Repayment of short-term advances		—	—	—	(26,783)
Payment of deferred consideration		(64,827)	—	(1,896,850)	(1,100,000)
Payment of contingent consideration		—	—	—	(4,795,822)
Repayment of notes payable and bank indebtedness		(1,500,000)	(5,625,000)	(9,500,000)	(13,175,000)
Proceeds from bank indebtedness		11,006,750	7,000,000	16,006,750	11,300,000
Proceeds from exercise of stock options		—	6,753	10,680	426,366
Payment of deferred financing fees		(125,000)	—	(159,314)	—
Distributions to non-controlling interest		(3,952,150)	(3,615,819)	(8,688,260)	(11,804,480)
Repurchase of shares for cancellation	12(e)	(296,600)	(1,109,170)	(652,165)	(3,982,914)
Acquisition of equity interest from non-controlling interest	2(b)	—	(7,018,658)	—	(9,434,009)
Net cash provided by (used in) financing activities		5,039,073	(10,376,269)	(4,727,879)	(32,611,017)
<b>Investing activities</b>					
Acquisition of property and equipment		(10,957)	(4,834)	(32,829)	(45,681)
Deferred asset acquisition costs		56,488	38,437	(191,934)	(440)
Distribution received from equity investment		—	92,400	—	92,400
Purchase adjustment relating to anesthesia service providers acquired in prior periods		—	4,366,000	—	4,366,000
Acquisition of cost investment	4	(2,016,076)	—	(2,016,076)	—
Acquisition of anesthesia services providers	4	(11,024,903)	(2,174,003)	(19,296,746)	(9,204,437)
Net cash provided by (used in) investing activities		(12,995,448)	2,318,000	(21,537,585)	(4,792,158)
Effects of foreign exchange on cash and cash equivalents		2,134	(270)	533	1,395
Decrease in cash and cash equivalents		(137,564)	2,652,624	(1,469,218)	(4,731,901)
Cash and cash equivalents, beginning of period		5,237,062	2,562,420	6,568,716	9,946,945
Cash and cash equivalents, end of period		\$ 5,099,498	\$ 5,215,044	\$ 5,099,498	\$ 5,215,044
<b>Supplemental disclosures:</b>					
Cash interest paid		\$ (479,023)	\$ (772,680)	\$ (1,547,068)	\$ (2,532,084)
Taxes paid		\$ (2,291,679)	\$ (1,359,634)	\$ (2,958,068)	\$ (3,640,248)
Operating lease payments		\$ (71,902)	\$ (90,669)	\$ (171,086)	\$ (278,339)
Non-cash acquisition of right of use asset		\$ (1,013,512)	\$ —	\$ (1,013,512)	\$ —
Non-cash acquisition financing		\$ (2,329,378)	\$ (586,561)	\$ (2,623,592)	\$ (702,586)

See accompanying notes to condensed consolidated financial statements.

## CRH MEDICAL CORPORATION

### Notes to the condensed consolidated financial statements

(unaudited)

#### 1. Nature of operations:

CRH Medical Corporation (“CRH” or “the Company”) was incorporated on April 21, 2001 and is incorporated under the Business Corporations Act (British Columbia). The Company provides anesthesiology services to gastroenterologists in the United States through its subsidiaries and sells its patented proprietary technology for the treatment of hemorrhoids directly to physicians in the United States and Canada.

CRH principally operates in the United States and is headquartered from its registered offices located at Unit 619, 999 Canada Place, Vancouver, British Columbia, Canada.

#### 2. Summary of significant accounting policies:

##### (a) Basis of presentation:

These condensed consolidated interim financial statements have been prepared in accordance with US GAAP. These interim financial statements do not include all note disclosures required on an annual basis, and therefore, should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2019, filed with the appropriate securities regulatory authorities.

In the opinion of management, all adjustments, which include reclassifications and normal recurring adjustments necessary to present fairly the condensed consolidated balance sheets, condensed consolidated statement of operations and comprehensive income (loss), condensed consolidated statements of changes in equity and condensed consolidated statements cash flows as at September 30, 2020 and for all periods presented, have been recorded. The results of operations for the three and nine months ended September 30, 2020 are not necessarily indicative of the Company's full year results.

##### (b) Reclassification adjustment relating to 2019 comparative periods:

For the three and nine months ended September 30, 2019, the statements of cash flows were adjusted to reclassify Acquisition of equity interest from non-controlling interest from investing activities to financing activities given that the transaction is among owners. As a result, net cash flows from investing activities and financing activities are presented as follows:

	As previously presented		Adjustment		As currently presented	
	Three months ended September 30, 2019	Nine months ended September 30, 2019	Three months ended September 30, 2019	Nine months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2019
Cash flows from financing activities	\$ (3,357,611)	\$ (23,177,008)	\$ (7,018,658)	\$ (9,434,009)	\$ (10,376,269)	\$ (32,611,017)
Cash flows from investing activities	\$ (4,700,658)	\$ (14,226,167)	\$ 7,018,658	\$ 9,434,009	\$ 2,318,000	\$ (4,792,158)

After taking into consideration similar fourth quarter adjustments, there will be a reclassification of \$9,924,381 from investing activities to financing cash flows for the year ended December 31, 2019.

##### (c) Basis of consolidation:

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company through voting control and for the anesthesia business, control over the assets and business operations of the subsidiary through operating agreements. Control exists when the Company has the continuing power to govern the financial and operating policies of the investee. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control. Minority interests, if any, are valued at fair value at inception. All significant intercompany transactions and balances have been eliminated on consolidation.

## 2. Summary of significant accounting policies (continued):

### (d) Use of estimates, assumptions and judgments:

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

Reported amounts and note disclosures 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.

### (e) Adoption of new accounting policies:

#### *Government Assistance*

As a result of the receipt of government stimulus measures in the nine months ended September 30, 2020 (see note 10), the Company has adopted the following accounting policy in respect of funds received. In general, a government grant is recognized if it is probable that it will be received and that the Company will comply with the conditions associated with the grant. If the conditions are met, the Company recognizes the grant in profit or loss on a systematic basis in line with its recognition of the expenses that the grant is intended to compensate for. For grants related to income, a Company can elect to either offset the grant against the related expenditures or include it in other income. Government assistance received by the Company during the period which met the recognition criteria, have been accounted for as government grants related to income and have been included in other income. Where stimulus is received in the form of a forgivable loan, such as the Paycheck Protection Program ("PPP"), the Company has opted to apply government grant accounting and will recognize the proceeds within other income upon concluding that forgiveness of the loan is probable and that the Company has complied with the relevant provisions of the program. If forgiveness of the loan is not probable, it is presented as a loan on the balance sheet as of the end of the reporting period.

#### *Investments*

As a result of the Company's investment in an anesthesia revenue cycle management organization, the Company has adopted a new accounting policy in the period. In accordance with ASC 323: Investments – Equity Method and Joint Ventures, where the Company exerts virtually no influence over an investment, the Company will account for the investment at cost, using the measurement alternative permitted under ASC 321: Investments – Equity Securities. Equity securities without a readily determinable fair value are recorded at cost, minus impairment, if any.

## 3. Recent accounting pronouncements:

### (a) Initial adoption of new accounting standards:

- (i) In June 2016, FASB issued ASU No. 2016-13, "*Financial Instruments- Credit Losses (Topic 326)*", which requires companies to measure credit losses on financial instruments measured at amortized cost by applying an "expected credit loss" model based upon past events, current conditions and reasonable and supportable forecasts that affect collectability. Previously, companies applied an "incurred loss" methodology for recognizing credit losses. This standard is effective for fiscal years beginning January 1, 2023 for smaller reporting companies. As CRH meets the definition of smaller reporting company, CRH will adopt this standard for fiscal years beginning January 1, 2023. The adoption of this standard is not expected to have a material impact on the Company.

### (b) Recent accounting pronouncements not yet adopted:

- (i) Income Taxes – Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU 2019-12, *Income Taxes – Simplifying the Accounting for Income Taxes*. The new guidance simplifies the accounting for income taxes by removing several exceptions in the current standard and adding guidance to reduce complexity in certain areas, such as requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently assessing the impact that adopting this guidance will have on its consolidated financial statements.

#### 4. Asset acquisitions:

During the three and nine months ended September 30, 2020, the Company completed five asset acquisitions. These asset acquisitions have been included in the anesthesia segment of the Company and represent the following:

Acquired Operation	Date Acquired	Consideration
Lake Lanier Anesthesia Associates LLC ("LLAA")	June 2020	\$ 5,428,514
Metro Orlando Anesthesia Associates LLC ("MOAA")	June 2020	\$ 3,137,543
Central Virginia Anesthesia Associates LLC ("CVAA")	July 2020	\$ 5,252,886
Orange County Anesthesia Associates LLC ("OCAA")	August 2020	\$ 6,251,015
Coastal Carolina Sedation Associates LLC ("CCSA")	September 2020	\$ 1,850,381

The results of operations of the acquired entities have been included in the Company's consolidated financial statements from the date of acquisition as the Company has control over these entities.

The following table summarizes the fair value of the consideration transferred and the allocated costs of the assets and liabilities acquired at the acquisition date.

	LLAA	MOAA	CVAA	OCAA	CCSA	Total
Cash	\$5,379,954	\$2,803,500	\$ 2,800,000	\$6,200,000	\$1,800,000	\$18,983,454
Contingent consideration	—	294,214	2,306,971	—	—	2,601,185
Acquisition costs	48,560	39,829	145,915	51,015	50,381	335,700
Purchase consideration	\$5,428,514	\$3,137,543	\$ 5,252,886	\$6,251,015	\$1,850,381	\$21,920,339
Non-controlling interest	\$1,809,504	\$1,045,848	\$ 5,046,890	\$3,220,220	\$1,777,816	\$12,900,278
	<u>\$7,238,018</u>	<u>\$4,183,391</u>	<u>\$10,299,776</u>	<u>\$9,471,235</u>	<u>\$3,628,197</u>	<u>\$34,820,617</u>
Assets and liabilities acquired:						
Exclusive professional services agreements	\$7,238,018	\$4,183,391	\$10,299,776	\$9,471,235	\$3,628,197	\$34,820,617
Fair value of net identifiable assets and liabilities acquired	<u>\$7,238,018</u>	<u>\$4,183,391</u>	<u>\$10,299,776</u>	<u>\$9,471,235</u>	<u>\$3,628,197</u>	<u>\$34,820,617</u>
Exclusive professional services agreements – amortization term	5 years	5 years	5 years	7 years	7 years	
CRH ownership interest acquired	<u>75%</u>	<u>75%</u>	<u>51%</u>	<u>66%</u>	<u>51%</u>	

The value of the acquired intangible assets, being exclusive professional services agreements, relate to the acquisition of exclusive professional services agreements to provide professional anesthesia services. The amortization term for the agreements is based upon contractual terms within the acquisition agreement and professional services agreement.

The non-controlling interest was determined with reference to the non-controlling interest shareholder's share of the fair value of the net identifiable assets as estimated by the Company.

As part of the MOAA transaction, the Company is required to pay \$311,500 to the seller after the second anniversary date of the transaction dependent on MOAA meeting certain EBITDA targets during the first and second year after the transaction date. Based on the Company's current forecasts, the Company believes it probable that the EBITDA targets will be met. If the EBITDA targets are not met, no contingent consideration is payable.

As part of the CVAA transaction, the Company is required to pay either \$1,500,000 or \$2,500,000 to the seller after the third anniversary date of the transaction dependent on CVAA meeting certain EBITDA, full-time equivalent employee and revenue per case targets during the second and third year after the transaction date. Based on the Company's current forecasts, the Company believes it probable that the targets will be met and the full amount of the contingent consideration, \$2,500,000, will be paid.

#### Other Transactions

In addition to the above asset acquisitions, on September 17, 2020, a subsidiary of the Company entered into a membership interest purchase agreement to purchase a 5.56% interest in an anesthesia revenue cycle management organization for \$2,000,000. The Company also incurred \$16,076 of legal fees as part of the transaction. As the Company has virtually no influence over this investment, in accordance with ASC 323: Investments – Equity Method and Joint Ventures, the Company will account for the investment at cost, using the measurement alternative permitted under ASC 321: Investments – Equity Securities, which is to measure equity securities without a readily determinable fair value at cost, minus impairment, if any.

#### 4. Asset acquisitions (continued):

During the year ended December 31, 2019, the Company completed five asset acquisitions. These asset acquisitions have been included in the anesthesia segment of the Company and represent the following:

Acquired Operation	Date Acquired	Consideration
Anesthesia Care Associates LLC ("ACA")	January 2019	\$ 5,355,028
South Metro Anesthesia Associates LLC ("SMAA")	May 2019	\$ 1,791,431
Crystal River Anesthesia Associates LLC ("CRAA")	July 2019	\$ 2,174,003
Triad Sedation Associates LLC ("TSA")	November 2019	\$ 3,828,661
Florida Panhandle Anesthesia Associates LLC ("FPAA")	December 2019	\$ 2,762,302

The results of operations of the acquired entities have been included in the Company's consolidated financial statements from the date of acquisition as the Company has control over these entities.

The following table summarizes the fair value of the consideration transferred and the allocated costs of the assets and liabilities acquired at the acquisition date.

	ACA	SMAA	CRAA	TSA	FPAA	Total
Cash	\$5,239,003	\$1,752,465	\$2,130,000	\$ 3,185,843	\$2,725,000	\$15,032,311
Acquisition costs	116,025	38,966	44,003	15,173	37,302	251,469
Deferred consideration	—	—	—	627,645	—	627,645
Pre-transaction equity interest	—	—	—	1,595,275	—	1,595,275
Purchase consideration	\$5,355,028	\$1,791,431	\$2,174,003	\$ 5,423,936	\$2,762,302	\$17,506,700
Non-controlling interest	\$ —	\$1,465,716	\$2,088,748	\$ 5,211,233	\$2,653,976	\$11,419,673
	<u>\$5,355,028</u>	<u>\$3,257,147</u>	<u>\$4,262,751</u>	<u>\$10,635,169</u>	<u>\$5,416,278</u>	<u>\$28,926,373</u>
Assets and liabilities acquired:						
Exclusive professional services agreements	\$5,355,028	\$3,257,147	\$4,262,751	\$ 8,891,711	\$5,416,278	\$27,182,915
Cash	—	—	—	115,397	—	115,397
Accounts receivable	—	—	—	1,950,219	—	1,950,219
Prepaid expenses and deposits	—	—	—	1,518	—	1,518
Trade payables and other accruals	—	—	—	(323,676)	—	(323,676)
Pre-close accounts receivable	50,000	—	—	—	—	50,000
Pre-close accounts payable	(50,000)	—	—	—	—	(50,000)
Fair value of net identifiable assets and liabilities acquired	<u>\$5,355,028</u>	<u>\$3,257,147</u>	<u>\$4,262,751</u>	<u>\$10,635,169</u>	<u>\$5,416,278</u>	<u>\$28,926,373</u>
Exclusive professional services agreements – amortization term	<u>6 years</u>	<u>5 years</u>	<u>5 years</u>	<u>5 years</u>	<u>5 years</u>	
CRH ownership interest	<u>100%</u>	<u>55%</u>	<u>51%</u>	<u>51%</u>	<u>51%</u>	

The value of the acquired intangible assets, being exclusive professional services agreements, relate to the acquisition of exclusive professional services agreements to provide professional anesthesia services. The amortization term for the agreements is based upon contractual terms within the acquisition agreement and professional services agreement.

The non-controlling interest was determined with reference to the non-controlling interest shareholder's share of the fair value of the net identifiable assets as estimated by the Company.

#### Other Transactions

In addition to the above asset acquisitions, on April 3, 2019, a subsidiary of the Company entered into a membership interest purchase agreement to purchase the remaining 49% interest in Arapahoe Gastroenterology Anesthesia Associates LLC ("Arapahoe"); prior to the purchase the Company held a 51% interest in the Arapahoe entity. The purchase consideration, paid via cash, for the acquisition of the remaining 49% interest was \$2,300,000 plus 49% of Arapahoe's working capital as at March 31, 2019. Additionally, the Company incurred deferred acquisition costs of \$26,086.



#### 4. Asset acquisitions (continued):

On August 31, 2019, a subsidiary of the Company entered into a membership interest purchase agreement to purchase the remaining 49% interest in Central Colorado Anesthesia Associates LLC (“CCAA”); prior to the purchase the Company held a 51% interest in the CCAA entity. The purchase consideration, paid via cash, for the acquisition of the remaining 49% interest was \$7,000,000 plus 49% of CCAA’s working capital as at August 31, 2019. Additionally, the Company incurred deferred acquisition costs of \$18,658.

#### 5. Trade and other receivables:

	September 30, 2020	December 31, 2019
Trade receivables, gross	\$ 20,355,059	\$ 20,024,916
Other receivables	33,850	50,756
Less: allowance for doubtful accounts	(30,029)	(34,384)
	<u>\$ 20,358,880</u>	<u>\$ 20,041,288</u>
Anesthesia segment – trade receivables, gross	19,287,998	19,081,177
Product segment – trade receivables, gross	1,067,061	943,739
	<u>\$ 20,355,059</u>	<u>\$ 20,024,916</u>

#### 6. Trade and other payables:

	September 30, 2020	December 31, 2019
Trade payables	\$ 1,966,937	\$ 1,213,276
Accruals and other payables	5,465,489	4,983,465
Government assistance - Paycheck Protection Program ("PPP") (note 10)	16,872	—
	<u>\$ 7,449,298</u>	<u>\$ 6,196,741</u>

#### 7. Right of use assets and related obligations:

The Company has applied the exemption to treat short-term leases as executory contracts as well as applied the practical expedient not to separate non-lease components from lease components and instead to account for each separate lease component and the non-lease components associated with that lease component as a single lease component. During the three and nine months ended September 30, 2020, the Company incurred total operating lease expenses of \$91,527 and \$248,620, respectively (2019 - \$90,670 and \$278,339, respectively). For the three months ended September 30, 2020, this included lease expenses associated with fixed lease payments of \$85,071 and variable lease payments of \$6,456 (2019 - \$69,572 and \$21,098, respectively). For the nine months ended September 30, 2020, this included lease expenses associated with fixed lease payments of \$220,039 and variable lease payments of \$28,581 (2019 - \$216,261 and \$62,078, respectively).

Lease expense is allocated to operating segments based on the location of the leases, as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Anesthesia services expense	\$ 54,899	\$ 28,106	\$ 111,188	\$ 90,839
Product sales expense	18,314	31,282	68,716	93,750
Corporate expense	18,314	31,282	68,716	93,750
	<u>\$ 91,527</u>	<u>\$ 90,670</u>	<u>\$ 248,620</u>	<u>\$ 278,339</u>

The weighted average lease term of the Company’s three premises leases is 4.61 years. During the three months ended September 30, 2020, the Company engaged in a new 5.25 year lease for office space for its Atlanta office location. This lease includes a renewal option to further extend the lease for 2 additional 5-year terms. The Company has not included the 2 additional 5 year renewal terms in its calculation of the lease liability. The weighted average discount rate used by the Company in calculating the obligation relating to right of use assets is based on US Corporate BBB effective bond yields at September 30, 2020.

## 7. Right of use assets and related obligations (continued):

The following table presents a maturity analysis of the Company's undiscounted lease obligations for each of the next five years, reconciled to the obligation as recorded on the balance sheet.

	Undiscounted lease payments
Remainder of 2020	\$ 58,425
2021	299,507
2022	225,769
2023	231,977
2024	238,357
2025	182,924
	<u>\$ 1,236,959</u>
Accretion related to outstanding lease obligations	(129,845)
Total	<u>\$ 1,107,114</u>
Current obligation relating to lease liability	\$ 241,742
Long-term obligation relating to lease liability	\$ 865,372
Total	<u>\$ 1,107,114</u>

## 8. Intangible assets:

Intangible assets, consisting of acquired exclusive professional service agreements to provide anesthesia services and the cost of acquiring patents, are recorded at historical cost. For patents, costs also include legal costs involved in expanding the countries in which the patents are recognized to the extent expected cash flows from those countries exceed these costs over the amortization period and costs related to new patents. The amortization term for professional services agreements are based on the contractual terms of the agreements. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives and are measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets with finite lives are amortized over the following periods:

Asset	Basis	Rate
Intellectual property rights to the CRH O'Regan System	Straight-line	15 years
Intellectual property new technology	Straight-line	20 years
Exclusive professional services agreements	Straight-line	4.5 to 15 years

	Professional Services Agreements	Patents	Total
Cost			
Balance as at December 31, 2019	\$ 275,113,390	\$ 532,598	\$ 275,645,988
Additions through asset acquisitions (note 4)	34,820,617	—	34,820,617
Balance as at September 30, 2020	<u>\$ 309,934,007</u>	<u>\$ 532,598</u>	<u>\$ 310,466,605</u>

	Professional Services Agreements	Patents	Total
Accumulated depreciation			
Balance as at December 31, 2019	\$ 112,035,676	\$ 502,119	\$ 112,537,795
Amortization expense	29,601,972	1,510	29,603,482
Balance as at September 30, 2020	<u>\$ 141,637,648</u>	<u>\$ 503,629</u>	<u>\$ 142,141,277</u>

## 8. Intangible assets (continued):

	Professional Services Agreements	Patents	Total
Net book value			
September 30, 2020	\$ 168,296,359	\$ 28,969	\$ 168,325,328
December 31, 2019	<u>\$ 163,077,714</u>	<u>\$ 30,479</u>	<u>\$ 163,108,193</u>

The Company identified indicators of impairment in respect of one professional services agreement as at September 30, 2020. Upon performing undiscounted cash flow modeling for this asset, the Company identified that it did not require further review for impairment. The impact of the COVID-19 pandemic (see note 15), has been incorporated into the Company's key assumptions and underlying cash flow estimates; however, due to uncertainties in the estimates that are inherent to the Company's industry and uncertainties around the duration and longevity of the pandemic, actual results could differ significantly from the estimates made. Many key assumptions in the cash flow projections are interdependent on each other. A change in any one or combination of these assumptions could impact the estimated fair value of the reporting unit.

As at December 31, 2019, the Company identified indicators of impairment in respect of six of its professional services agreements. Upon performing undiscounted cash flow models for these assets, the Company identified only two assets that required further review for impairment. The Company performed discounted cash flow modelling for these assets and compared the resultant discounted cash flows expected over the life of the assets to the carrying amounts as at December 31, 2019. The income approach was used for the quantitative assessment to estimate the fair value of the asset, which requires estimating future cash flows and a risk-adjusted discount rate in the Company's discounted cash flow model. The overall market outlook and cash flow projections of the reporting unit involves the use of key assumptions, including anesthesia growth rates, revenue rates per case, discount rates and operating cost growth rates.

As a result of this test, no write-downs to the intangible assets were required.

Various of the Company's professional services agreements are subject to renewal terms. The weighted average period before the Company's professional services agreements are up for renewal is 2.95 years. The weighted average remaining amortization period for the Company's professional services agreements is 4.56 years.

Based on the Company's professional services agreements in place at September 30, 2020, the Company anticipates that the amortization expense to be incurred by the Company over the next five years is as follows:

	Amortization Expense
For professional services agreements as at September 30, 2020:	
Remainder of 2020	\$ 10,859,181
2021	38,372,597
2022	31,651,357
2023	27,504,951
2024	25,581,035
The first nine months of 2025	12,733,507
	<u>\$ 146,702,628</u>

## 9. Equity investment:

In October 2018, the Company entered into an agreement with Digestive Health Specialists ("DHS"), located in North Carolina, to assist DHS in the development and management of a monitored anesthesia care program. Under the terms of the agreement, CRH was a 15% equity owner in the anesthesia business, Triad Sedation Associates LLC ("TSA") and received compensation for its billing and collection services. Under the terms of the limited liability company agreement, CRH had the right, at CRH's option, to acquire an additional 36% interest in the anesthesia business at a future date, but no sooner than November 2019. The Company assessed and concluded that, as TSA was an LLC, equity method accounting was required under ASC 970-323 until such time as a change in ownership interest occurred. On November 1, 2019, the Company acquired control of TSA via the exercise of its option to acquire an additional 36% interest. Refer to note 4.

## 9. Equity investment (continued):

The option agreement was determined to be an executory contract and both the equity interest and option agreement were determined to have only nominal value upon grant date and as at September 30, 2019.

The following table summarizes unaudited financial information for the TSA equity method investee for the nine months ended September 30, 2019. As at and for the three and nine months ended September 30, 2020, TSA is consolidated 100% within the results of the Company.

Results of operations	Nine months ended September 30, 2019
Anesthesia revenue	\$ 3,811,965
Anesthesia services expense	1,339,698
Net income	<u>\$ 2,472,267</u>

## 10. Government assistance:

On April 15, 2020, the Company received loan proceeds of \$2,945,620 ("PPP Loan") under the Paycheck Protection Program ("PPP"). The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") in order to enable small businesses to pay employees during the COVID-19 crisis, and provides loans to qualifying businesses for up to 2.5 times their average monthly payroll costs. The amount borrowed under the PPP is expected to be eligible to be forgiven provided that the borrower uses the loan proceeds during the twenty-four week period ("Covered Period") after receiving them, and provided that the proceeds are used to cover payroll costs (including benefits), rent, mortgage interest, and utility costs. The amount of loan forgiveness will be reduced if, among other reasons, the borrower does not maintain staffing or payroll levels.

Principal and interest payments on any unforgiven portion of the PPP Loan will be deferred for ten months after the end of the Covered Period and will accrue interest at a fixed annual rate of 1%. Additionally, the remaining PPP Loan balance will carry a two year maturity date. There is no prepayment penalty on the PPP Loan.

The Company anticipates full forgiveness of the loan over the Covered Period indicated. As the Company has accounted for the loan as a government grant related to income, the Company has recognized within other income \$2,928,748 of the loan proceeds as at September 30, 2020 with the remaining proceeds included within accounts payable until further expenses are recognized. The Company has and will recognize the grant in earnings on a systematic basis in line with the recognition of eligible expenses. In the three months ended September 30, 2020, the Company recognized \$111,728 of the PPP in earnings, with the remainder recognized in the first six months of 2020.

During the quarter ended September 30, 2020, the Company also received additional funds of \$177,941 under the CARES Act HHS Stimulus Fund, taking the total received for the nine months ended September 30, 2020 to \$2,149,077. The CARES Act provided funding to eligible healthcare providers to prevent, prepare for and respond to COVID-19. The funds were intended to reimburse healthcare providers for lost income attributable to COVID-19 and for healthcare related expenses. Consistent with the accounting applied to the PPP loan, the Company has accounted for the HHS Stimulus funds as government grants related to income. As there are no repayment provisions under the CARES Act and the Company has assessed that it has complied with the conditions of this program, funds received under this program have been recognized in other income in the three and nine months ended September 30, 2020.

During the nine months ended September 30, 2020, the Company also received \$1,900,584 under the Medicare Accelerated and Advanced Payment Program. The Center for Medicare and Medicaid Services ("CMS") offers accelerated and advance payments in a number of circumstances, including in national emergencies to accelerate cashflow to impacted healthcare providers and suppliers. During the quarter ended September 30, 2020, the CMS amended the recoupment process for these funds: under the Continuing Appropriations Act, 2021 and Other Extensions Act, repayment will now begin one year from the issuance date of each provider or supplier's accelerated or advance payment. After that first year, Medicare will automatically recoup 25% of Medicare payments otherwise owed to the provider or supplier for 11 months. At the end of the 11-month period, recoupment will increase to 50% for another 6 months. As a result of the recoupment process, CRH has recognized the funds received as a liability on the balance sheet, including them within contract liability – CMS Advancement at period end, allocated between current and long-term.

## 11. Notes payable:

	September 30, 2020	December 31, 2019
Current portion	\$ —	\$ —
Non-current portion	74,997,205	68,380,345
Total loans and borrowings	<u>\$ 74,997,205</u>	<u>\$ 68,380,345</u>

### *J.P. Morgan Chase (“JP Morgan Facility”)*

On October 22, 2019, the Company entered into a three year revolving credit line which provides up to \$200 million in borrowing capacity. The JP Morgan Facility includes a committed \$125 million facility and access to an accordion feature that increases the amount of the credit available to the Company by \$75 million. Interest on the JP Morgan Facility is calculated with reference to LIBOR plus 1.25% to 1.75%, dependent on the Company’s total leverage ratio. The JP Morgan Facility is secured by the assets of the Company and matures on October 22, 2022. Since the JP Morgan Facility is a syndicated facility, which includes the Bank of Nova Scotia as a lender, any remaining deferred financing fees under the previous Scotia Facility were retained and are amortized over the term of the new facility. The Company incurred deferred financing fees of \$839,893 in connection with this facility in the year ended December 31, 2019 and incurred additional deferred fees of \$125,000 in the quarter ended September 30, 2020 when it further amended its facility on September 18, 2020. This amendment, in conjunction with a previous amendment dated August 13, 2020, allows for the Company to engage in investments where less than 51% equity ownership is held and also amended the Company’s Total Leverage Ratio to not greater than 3.50:1.00 until the quarter ended June 30, 2021. Should the Company’s PPP loan be forgiven prior to June 30, 2021, the ratio is amended downward to 3.25:1.00. After June 2021, the Total Leverage Ratio will revert back to 3.00:1.00. The remaining unamortized fees relating to the JP Morgan Facility and the deferred financing fees under the previous Scotia facility, as of September 30, 2020 were \$850,915. Under the JP Morgan Facility, there are no quarterly or annual repayment requirements. As at September 30, 2020, the Company had drawn \$75,848,120 on the JP Morgan Facility (2019 - \$69,341,370). As at September 30, 2020, the Company is required to maintain the following financial covenants in respect of this Facility:

Financial Covenant	Required Ratio
Total leverage ratio	Not greater than 3.50:1.00
Interest coverage ratio	Not less than 3.00:1.00

The Company is in compliance with all covenants as at September 30, 2020.

The consolidated minimum loan payments (principal) for all loan agreements in the future are as follows:

	Minimum Principal
At September 30, 2020	
Remainder of 2020	\$ —
2022	75,848,120
	<u>\$ 75,848,120</u>

## 12. Share capital:

- (a) Authorized:  
100,000,000 common shares without par value.
- (b) Issued and outstanding – common shares:

Other than in connection with shares issued in respect of the Company’s share unit and share option plans and in connection with the Company’s normal course issuer bid (note 12(e)), there were no share transactions in the three and nine months ended September 30, 2020 and 2019.

## 12. Share capital (continued):

### (c) Share unit plan:

In June 2017, the shareholders of the Company approved a Share Unit Plan and the plan was subsequently amended and approved in June 2020. Employees, directors and eligible consultants of the Company and its designated subsidiaries are eligible to participate in the Share Unit Plan. In accordance with the terms of the plan, the Company will approve those employees, directors and eligible consultants who are entitled to receive share units and the number of share units to be awarded to each participant. Each share unit awarded conditionally entitles the participant to receive one common share of the Company upon attainment of the share unit vesting criteria. The vesting of share units is conditional upon the expiry of time-based vesting conditions or performance-based vesting conditions or a combination of the two. Once the share units vest, the participant is entitled to receive the equivalent number of underlying common shares; the Company issues new shares in satisfying its obligations under the plan.

A summary of the status of the plan as of September 30, 2020 is as follows:

	<u>Time based share units</u>	<u>Performance based share units</u>
Outstanding, December 31, 2019	2,147,500	950,000
Issued	300,000	—
Exercised	(147,500)	—
Forfeited	(115,625)	—
Expired	—	—
Outstanding, September 30, 2020	2,184,375	950,000
Vested	—	—
Expected to vest	<u>2,184,375</u>	<u>—</u>

During the three and nine months ended September 30, 2020, the Company recognized \$602,740 (2019 – \$624,366) and \$1,714,831 (2019 – \$124,595) in compensation expense in relation to share units.

### (d) Stock-option plan:

During the three and nine months ended September 30, 2020, 25,000 options were exercised under the Company's stock-option plan.

During the three and nine months ended September 30, 2020, the Company recognized \$50,227 (2019 - \$82,113) and \$186,129 (2019 - \$155,753) in compensation expense in relation to options.

### (e) Normal Course Issuer Bid:

During the three months ended September 30, 2020, the Company repurchased 126,300 (2019 – 384,549) of its shares under its Normal Course Issuer Bid for a total cost, including transaction fees, of \$297,549 (CAD\$395,817) (2019 - \$1,112,097 (CAD\$1,466,297)).

During the nine months ended September 30, 2020, the Company repurchased 315,200 (2019 – 1,357,979) of its shares under its Normal Course Issuer Bid for a total cost, including transaction fees, of \$654,473 (CAD\$890,534) (2019 - \$3,992,728 (CAD\$5,306,896)). As at September 30, 2020, 314,400 of these shares had been cancelled with the remaining 800 shares cancelled on October 2, 2020.

## 12. Share capital (continued):

### (f) Earnings (loss) per share:

The calculation of basic and diluted earnings (loss) per share for the three and nine months ended September 30, 2020 and 2019 is as follows:

	For the three months ended September 30,					
	2020			2019		
	Net loss	Weighted average number of common shares outstanding	Per share amount	Net earnings	Weighted average number of common shares outstanding	Per share amount
Net earnings (loss) attributable to shareholders:						
Earnings (loss) per common share:						
Basic	<u>\$ (337,954)</u>	<u>71,506,045</u>	<u>\$ (0.005)</u>	<u>\$ 982,368</u>	<u>71,831,356</u>	<u>\$ 0.014</u>
Share Options		—			422,043	
Share Units		—			545,743	
Diluted	<u>\$ (337,954)</u>	<u>71,506,045</u>	<u>\$ (0.005)</u>	<u>\$ 982,368</u>	<u>72,799,142</u>	<u>\$ 0.013</u>

	For the nine months ended September 30,					
	2020			2019		
	Net loss	Weighted average number of common shares outstanding	Per share amount	Net earnings	Weighted average number of common shares outstanding	Per share amount
Net earnings (loss) attributable to shareholders:						
Earnings (loss) per common share:						
Basic	<u>\$(5,324,264)</u>	<u>71,558,371</u>	<u>\$ (0.074)</u>	<u>\$2,552,084</u>	<u>71,845,812</u>	<u>\$ 0.036</u>
Share options		—			742,909	
Share units		—			434,423	
Diluted	<u>\$(5,324,264)</u>	<u>71,558,371</u>	<u>\$ (0.074)</u>	<u>\$2,552,084</u>	<u>73,023,144</u>	<u>\$ 0.035</u>

For the three months ended September 30, 2020, 979,687 options (2019 – 590,144) and 2,631,304 share units (2019 – 1,935,399) were excluded from the diluted weighted average number of common shares calculation.

For the nine months ended September 30, 2020, 988,720 options (2019 – 475,560) and 2,629,772 share units (2019 – 1,936,849) were excluded from the diluted weighted average number of common shares calculation.

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. The treasury method is used to determine the calculation of dilutive shares.

## 13. Net finance expense

Recognized in earnings in the three and nine months ended September 30, 2020:

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Finance expense:				
Interest and accretion expense on borrowings	\$ 431,925	\$ 848,369	1,459,837	2,556,527
Accretion expense on earn-out obligation and deferred consideration	15,925	10,145	32,833	123,305
Amortization of deferred financing fees	90,411	65,091	269,424	195,273
Net change in fair value of financial liabilities at fair value through earnings (note 14)	\$ (96,294)	181,805	\$ (376,087)	2,771,238
Other	—	20,000	—	50,000
Total finance expense	<u>\$ 441,967</u>	<u>\$ 1,125,410</u>	<u>1,386,007</u>	<u>5,696,343</u>

#### 14. Financial instruments:

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, investments, trade and other payables, employee benefit obligations, short term advances, notes payable and bank indebtedness, deferred consideration and the Company's earn-out obligation and contingent liability. The fair values of these financial instruments, except the Company's investment, notes payable balances, the earn-out obligation and the contingent liability, approximate carrying value because of their short-term nature. The earn-out obligation is recorded at fair value. The fair value of the notes payable and bank indebtedness, which is comprised of the JP Morgan Facility, approximates carrying value as it is a floating rate instrument. Given the Company's recent purchase of its investment held at cost, its cost approximates fair value at September 30, 2020.

An established fair value hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement. There are three levels of inputs that may be used to measure fair value:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Assets	September 30, 2020	Level 1	Level 2	Level 3
Investment	\$ 2,016,076	\$ —	\$ —	\$ 2,016,076
Total	\$ 2,016,076	\$ —	\$ —	\$ 2,016,076

Assets	December 31, 2019	Level 1	Level 2	Level 3
Investment	\$ —	\$ —	\$ —	\$ —
Total	\$ —	\$ —	\$ —	\$ —

Liabilities	September 30, 2020	Level 1	Level 2	Level 3
Earn-out obligation	\$ 686,973	\$ —	\$ —	\$ 686,973
Total	\$ 686,973	\$ —	\$ —	\$ 686,973

Liabilities	December 31, 2019	Level 1	Level 2	Level 3
Earn-out obligation	\$ 1,063,060	\$ —	\$ —	\$ 1,063,060
Total	\$ 1,063,060	\$ —	\$ —	\$ 1,063,060

The Company's earn-out obligation is measured at fair value on a recurring basis using significant unobservable inputs (Level 3). The earn-out obligation relates to the Company's Gastroenterology Anesthesia Associates LLC acquisition, which was acquired in 2014. As part of the GAA transaction, the Company is required to pay consideration contingent on the post-acquisition earnings of the acquired asset. In the year-ended December 31, 2019, the Company paid \$4,795,822 as partial payment of the amount owing under its earn-out obligation; the Company expects to pay the remaining obligation of \$686,193 within one year. The Company measures the fair value of the earn-out obligation based on its best estimate of the cash outflows payable in respect of the earn-out obligation. This valuation technique includes inputs relating to estimated cash outflows under the arrangement and where payment is greater than one year from the reporting date, an appropriate discount rate. The Company evaluates the inputs into the valuation technique at each reporting period. During the three and nine months ended September 30, 2020, the Company revised its estimate underlying the remaining amount to be paid under the earn-out obligation. The amendment of the cash outflow estimates underlying the earn-out resulted in a decrease of \$376,087 for the nine months ended September 30, 2020 to the fair value of the earn-out obligation. The impact of this adjustment was recorded through finance expense in the period.



#### 14. Financial instruments (continued):

During the three and nine months ended September 30, 2020, the Company recorded accretion expense of \$nil (2019 - \$nil) and \$nil (2019 - \$nil), respectively in relation to this liability, reflecting the change in fair value of the liabilities that is attributable to credit risk.

#### Reconciliation of level 3 fair values:

	<u>Earn-out obligation</u>
Balance as at January 1, 2020	\$ 1,063,060
Recorded in finance expense:	
Fair value adjustment	(376,087)
Balance as at September 30, 2020	<u>\$ 686,973</u>

#### 15. Commitments and contingencies:

The Company is a party to a variety of agreements in the ordinary course of business under which it may be obligated to indemnify third parties with respect to certain matters. These obligations include, but are not limited to, contracts entered into with physicians where the Company agrees, under certain circumstances, to indemnify a third party against losses arising from matters including but not limited to medical malpractice and product liability. The impact of any such future claims, if made, on future financial results is not subject to reasonable estimation because considerable uncertainty exists as to final outcome of these potential claims.

In March 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and our business are not known at this time. These impacts could include an impact on our ability to obtain debt and equity financing, impairment in the value of our long-lived assets, or potential future decrease in revenue or the profitability of our going operations.

#### 16. Related party transactions:

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

##### (a) Related party transactions:

During the three and nine months ended September 30, 2020, the Company made product sales totaling \$14,190 and \$21,475, respectively (2019 - \$14,095 and \$28,095, respectively) to one company owned or controlled by one of the Company's Directors. The transaction terms with related parties may not be on the same price as those that would result from transactions among non-related parties. The amount owed by this related party as of September 30, 2020 was \$7,095 (2019 - \$7,000).

#### 17. Segmented information:

The Company operates in two industry segments: the sale of medical products and the provision of anesthesia services. The revenues relating to geographic segments based on customer location, in United States dollars, for the three and nine months ended September 30, 2020 and 2019 are as follows:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u> <u>2020</u>	<u>September 30,</u> <u>2019</u>	<u>September 30,</u> <u>2020</u>	<u>September 30,</u> <u>2019</u>
Revenue:				
Canada and other	\$ 65,257	\$ 51,489	\$ 123,049	\$ 175,747
United States	30,284,195	30,363,314	69,266,101	89,840,305
Total	<u>\$ 30,349,452</u>	<u>\$ 30,414,803</u>	<u>\$ 69,389,150</u>	<u>\$ 90,016,052</u>

## 17. Segmented information (continued):

The Company's revenues are disaggregated below into categories which differ in terms of the economic factors which impact the amount, timing and uncertainty of revenue and cash flows.

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
<b>Revenue:</b>				
Commercial Insurers	\$ 22,328,411	\$ 22,801,819	\$ 50,502,740	\$ 67,830,007
Federal Insurers	5,563,807	5,040,136	12,851,072	14,408,155
Physicians	2,365,549	2,448,174	5,827,537	7,330,147
Other	91,685	124,674	207,801	447,743
<b>Total</b>	<b>\$ 30,349,452</b>	<b>\$ 30,414,803</b>	<b>\$ 69,389,150</b>	<b>\$ 90,016,052</b>

The Company's property and equipment, intangibles, other assets and total assets are located in the following geographic regions as at September 30, 2020 and December 31, 2019:

	2020	2019
<b>Property and equipment:</b>		
Canada	\$ 154,264	\$ 210,386
United States	\$ 47,695	41,547
<b>Total</b>	<b>\$ 201,959</b>	<b>\$ 251,933</b>
<b>Intangible assets:</b>		
Canada	\$ 28,968	\$ 30,478
United States	\$ 168,296,360	163,077,715
<b>Total</b>	<b>\$ 168,325,328</b>	<b>\$ 163,108,193</b>
<b>Total assets:</b>		
Canada	\$ 2,415,224	\$ 3,231,845
United States	\$ 211,831,969	199,863,424
<b>Total</b>	<b>\$ 214,247,193</b>	<b>\$ 203,095,269</b>

The financial measures reviewed by the Company's Chief Operating Decision Maker are presented below for the three and nine months ended September 30, 2020 and 2019. The Company does not allocate expenses related to corporate activities. These expenses are presented within "Other" to allow for reconciliation to reported measures.

	Three months ended September 30, 2020			
	Anesthesia services	Product sales	Other	Total
Revenue	\$ 27,983,903	\$ 2,365,549	\$ —	\$ 30,349,452
Operating costs	26,963,897	1,080,861	2,219,867	30,264,625
<b>Operating income (loss)</b>	<b>\$ 1,020,006</b>	<b>\$ 1,284,688</b>	<b>\$ (2,219,867)</b>	<b>\$ 84,827</b>
	Three months ended September 30, 2019			
	Anesthesia services	Product sales	Other	Total
Revenue	\$ 27,966,629	\$ 2,448,174	\$ —	\$ 30,414,803
Operating costs	23,774,049	1,089,316	1,838,812	26,702,177
<b>Operating income (loss)</b>	<b>\$ 4,192,580</b>	<b>\$ 1,358,858</b>	<b>\$ (1,838,812)</b>	<b>\$ 3,712,626</b>
	Nine months ended September 30, 2020			
	Anesthesia services	Product sales	Other	Total
Revenue	\$ 63,561,613	\$ 5,827,537	\$ —	\$ 69,389,150
Operating costs	70,580,981	3,025,258	6,344,402	79,950,641
<b>Operating income (loss)</b>	<b>\$ (7,019,368)</b>	<b>\$ 2,802,279</b>	<b>\$ (6,344,402)</b>	<b>\$ (10,561,491)</b>

**17. Segmented information (continued):**

	<b>Nine months ended September 30, 2019</b>			
	<b>Anesthesia services</b>	<b>Product sales</b>	<b>Other</b>	<b>Total</b>
Revenue	\$ 82,685,905	\$ 7,330,147	\$ —	\$ 90,016,052
Operating costs	69,804,891	3,441,207	4,645,347	77,891,445
Operating income (loss)	<u>\$ 12,881,014</u>	<u>\$ 3,888,940</u>	<u>\$ (4,645,347)</u>	<u>\$ 12,124,607</u>

Additionally, the Company incurs the following in each of its operating segments:

	<b>Three months ended September 30, 2020</b>			
	<b>Anesthesia services</b>	<b>Product sales</b>	<b>Other</b>	<b>Total</b>
Finance (income) expense	\$ (80,369)	\$ —	\$ 522,336	\$ 441,967
Depreciation and amortization expense	<u>\$ 10,736,983</u>	<u>\$ 5,708</u>	<u>\$ 17,706</u>	<u>\$ 10,760,397</u>

	<b>Three months ended September 30, 2019</b>			
	<b>Anesthesia services</b>	<b>Product sales</b>	<b>Other</b>	<b>Total</b>
Finance expense	\$ 191,950	\$ —	\$ 933,460	\$ 1,125,410
Depreciation and amortization expense	<u>\$ 8,530,610</u>	<u>\$ 5,383</u>	<u>\$ 19,916</u>	<u>\$ 8,555,909</u>

	<b>Nine months ended September 30, 2020</b>			
	<b>Anesthesia services</b>	<b>Product sales</b>	<b>Other</b>	<b>Total</b>
Finance (income) expense	\$ (343,254)	\$ —	\$ 1,729,261	\$ 1,386,007
Depreciation and amortization expense	<u>\$ 29,613,097</u>	<u>\$ 16,749</u>	<u>\$ 56,621</u>	<u>\$ 29,686,467</u>

	<b>Nine months ended September 30, 2019</b>			
	<b>Anesthesia services</b>	<b>Product sales</b>	<b>Other</b>	<b>Total</b>
Finance expense	\$ 2,894,543	\$ —	\$ 2,801,800	\$ 5,696,343
Depreciation and amortization expense	<u>\$ 25,899,621</u>	<u>\$ 19,936</u>	<u>\$ 54,726</u>	<u>\$ 25,974,283</u>

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion should be read in conjunction with the attached financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q, as well as our audited financial statements and related notes thereto and management’s discussion and analysis of financial condition and results of operations for the year ended December 31, 2019 included in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission on March 11, 2020 and with the securities commissions in all provinces and territories of Canada on March 11, 2020. This Quarterly Report on Form 10-Q, including the following sections, contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties that could cause actual results and events to differ materially from those expressed or implied by such forward-looking statements. As a result of many factors, including without limitation those set forth under “Risk Factors” under Item 1A of Part II below, and elsewhere in this Quarterly Report on Form 10-Q, our actual results may differ materially from those anticipated in these forward-looking statements. We caution the reader not to place undue reliance on these forward-looking statements, which reflect management’s analysis only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to update forward-looking statements which reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q. Throughout this discussion, unless the context specifies or implies otherwise, the terms “CRH,” “we,” “us,” and “our” refer to CRH Medical Corporation and its subsidiaries.*

### **Overview**

CRH is a North American company focused on providing GIs with innovative services and products for the treatment of GI diseases. In 2014, CRH acquired a full service gastroenterology anesthesia company, GAA, which provides anesthesia services for patients undergoing endoscopic procedures. CRH has complemented this transaction with twenty-nine additional acquisitions of GI anesthesia companies since GAA.

According to the CDC, colorectal cancer is the second leading cause of cancer-related deaths in the United States and recent research indicates that the incidence of colon cancer in young adults is on the rise. The CDC has implemented campaigns to raise awareness of GI health and drive colorectal cancer screening rates among at risk populations. Colon cancer is treatable if detected early and screening colonoscopies are the most effective way to detect colon cancer in its early stages. Anesthesia-assisted endoscopies are the standard of care for colonoscopies and upper endoscopies.

CRH’s goal is to establish itself as the premier provider of innovative products and essential services to GIs throughout the United States. The Company’s CRH O’Regan System distribution strategy focuses on physician education, patient outcomes, and patient awareness. The O’Regan System is a single use, disposable, hemorrhoid banding technology that is safe and highly effective in treating hemorrhoid grades I – IV. CRH distributes the CRH O’Regan System, treatment protocols, operational and marketing expertise as a complete, turnkey package directly to physicians, allowing CRH to create meaningful relationships with the physicians it serves.

The Company has financed its cash requirements primarily from revenues generated from the sale of its product directly to physicians, GI anesthesia revenue, equity financings, debt financing and revolving and term credit facilities. The Company’s ability to maintain the carrying value of its assets is dependent on the evolving COVID-19 pandemic and the easing of related governmental restrictions and on the Company successfully marketing its products and services, obtaining reasonable rates for anesthesia services and maintaining future profitable operations, the outcome of which cannot be predicted at this time. The Company has also stated its intention to acquire or develop additional GI anesthesia businesses. In the future, it may be necessary for the Company to raise additional funds for the continuing development of its business plan, including additional acquisitions.

### **Recent Events**

#### *COVID-19 – March 2020*

In March 2020, a pandemic relating to a novel coronavirus known as COVID-19 occurred causing significant financial market disruption and social dislocation. The pandemic is dynamic with various cities, counties, states and countries around the world responding in different ways to address and contain the outbreak, including the declaration of a global pandemic by the World Health Organization, a National State of Emergency in the United States and state and local executive orders and ordinances forcing the closure of non-essential businesses and persons not employed in or using essential services to “stay at home” or “shelter in place”. At this stage, we have no certainty as to how long the pandemic will last, what regions will be most effected or to what extent containment measures will be applied. As a result of the pandemic, the Company’s operations were impacted in the last half of March 2020 and continued to be impacted throughout April and May 2020, with recovery beginning in late May and June 2020.

As a result of the COVID-19 pandemic, patients in the United States have cancelled or deferred non-emergent procedures or otherwise avoided medical treatment, resulting in reduced patient volumes and operating revenues and income from both our Products and Anesthesia Services businesses. These cancellations and deferrals continued during the third quarter of 2020 and while we are currently at around 100% of our pre-COVID estimated volume, these deferrals impacted our results during the third quarter of 2020. Until the COVID-19 pandemic is controlled, the potential remains for significant declines in revenue and operating income in the future. See “*Risk Factors – Our operations and financial results have been and could be further harmed by the COVID-19 pandemic.*”

#### *Paycheck Protection Program – April 2020*

On April 15, 2020, the Company received loan proceeds of \$2,945,620 under the Paycheck Protection Program (“PPP”). The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) in order to enable small businesses to pay employees during the coronavirus crisis, and provides loans to qualifying businesses for up to 2.5 times their average monthly payroll costs. The amount borrowed under the PPP is expected to be eligible to be forgiven provided that the borrower uses the loan proceeds during the twenty-four week period (“Covered Period”) after receiving them, and provided that the proceeds are used to cover payroll costs (including benefits), rent, mortgage interest, and utility costs. The amount of loan forgiveness will be reduced if, among other reasons, the borrower does not maintain staffing or payroll levels.

Principal and interest payments on any unforgiven portion of the PPP Loan will be deferred for ten months after the end of the Covered Period and will accrue interest at a fixed annual rate of 1%. Additionally, the remaining PPP Loan balance will carry a two year maturity date. There is no prepayment penalty on the PPP Loan.

The Company anticipates full forgiveness of the loan over the Covered Period indicated. As the Company has accounted for the loan as a government grant related to income, the Company has recognized within other income \$2,928,748 of the loan proceeds as at September 30, 2020 with the remaining proceeds included within accounts payable until further expenses are recognized. The Company has and will recognize the grant in earnings on a systematic basis in line with the recognition of eligible expenses.

#### *HHS Stimulus Fund – April 2020 and July/August 2020*

In April 2020, the Company received \$1,971,136 under the CARES Act, with subsequent funds of \$177,951 receive in July and August of 2020. The CARES Act provided funding to eligible healthcare providers to prevent, prepare for and respond to COVID-19. The funds were intended to reimburse healthcare providers for lost income attributable to COVID-19 and for healthcare related expenses. Consistent with the accounting applied to the PPP loan, the Company has accounted for the HHS Stimulus funds as government grants related to income. As there are no repayment provisions under the CARES Act and the Company has assessed that it has complied with the conditions of this program, funds received under this program have been recognized in other income in the nine months ended September 30, 2020.

#### *CMS Medicare Advancement – April 2020*

In April 2020, the Company also received \$1,900,584 under the Medicare Accelerate and Advance Payment Program. The Center for Medicare and Medicaid Services (“CMS”) offers accelerated and advance payments in a number of circumstances, including in national emergencies to accelerate cashflow to impacted healthcare providers and suppliers. During the quarter ended September 30, 2020 the CMS amended the recoupment process for these funds: under the Continuing Appropriations Act, 2021 and Other Extensions Act, repayment will now begin one year from the issuance date of each provider or supplier’s accelerated or advance payment. After that first year, Medicare will automatically recoup 25% of Medicare payments otherwise owed to the provider or supplier for 11 months. At the end of the 11-month period, recoupment will increase to 50% for another 6 months. As a result of the recoupment process, CRH has recognized the funds received as a liability on the balance sheet, including them within Contract liability – CMS Advancement at period end, allocated between current and long-term.

#### *New Director – April 2020*

Effective April 23, 2020, the Company appointed Brian Griffin to its Board of Directors, replacing Anthony Holler who resigned as director on March 19, 2020.

Mr. Griffin has a proven track record of over 35 years of senior leadership and operational experience in healthcare. He most recently served as Chairman and Chief Executive Officer of Diplomat Pharmacy Inc., one of the nation's largest independent Specialty Pharmacies and Pharmacy Benefit Managers (PBM), until it was recently acquired by UnitedHealth Group Inc. (NYSE: UNH). Previously, Mr. Griffin joined Anthem (NYSE: ANTM), in 2013, initially as President and Chief Executive Officer of its Empire BlueCross BlueShield – New York Company, and ultimately assuming the role of President of Anthem's Commercial Business, including its 14 BlueCross BlueShield plans nationwide. Thereafter, Mr. Griffin was named Chief Executive Officer of IngenioRx, Anthem's wholly owned national PBM. Mr. Griffin also held positions of increasing responsibility with Medco Health Solutions, Inc. and US Healthcare, Inc.

*Lake Lanier Anesthesia Associates LLC (“LLAA”) – June 2020*

On June 8, 2020, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire a 75% interest in Lake Lanier Anesthesia Associates LLC (“LLAA”), a gastroenterology anesthesia services provider in Georgia. The purchase consideration, paid via cash, for the acquisition of the Company's 75% interest was \$5,379,954 plus acquisition costs of \$48,560. The cost allocated to the exclusive professional services agreement which was acquired as part of this acquisition is \$7,238,018.

Additionally, at the same time, the Company entered into a start-up joint venture whereby a subsidiary of the Company owns a 51% interest in Oconee River Anesthesia Associates LLC (“ORAA”), located in Georgia.

*Metro Orlando Anesthesia Associates LLC (“MOAA”) – June 2020*

On June 22, 2020, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire a 75% interest in Metro Orlando Anesthesia Associates LLC (“MOAA”), a gastroenterology anesthesia services provider in Florida. The purchase consideration, paid via cash, for the acquisition of the Company's 75% interest was \$2,803,500 plus acquisition costs of \$39,829. Additionally, the Company has agreed to pay \$311,500 two years after the transaction date should certain EBITDA targets be met. The cost allocated to the exclusive professional services agreement which was acquired as part of this acquisition is \$4,183,391.

*Central Virginia Anesthesia Associates LLC (“CVAA”) – July 2020*

On July 7, 2020, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire a 51% interest in Central Virginia Anesthesia Associates LLC (“CVAA”), a gastroenterology anesthesia services provider in Virginia. The purchase consideration, paid via cash, for the acquisition of the Company's 51% interest was \$2,800,000 plus acquisition costs of \$145,915. Additionally, the Company has agreed to pay up to \$2,500,000 approximately three years after the transaction date should certain EBITDA, revenue per case and employee headcount targets be met. The cost allocated to the exclusive professional services agreement which was acquired as part of this acquisition is \$10,299,776.

*Orange County Anesthesia Associates LLC (“OCAA”) – August 2020*

On August 4, 2020, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire a 66% interest in Orange County Anesthesia Associates LLC (“OCAA”), a gastroenterology anesthesia services provider in Florida. The purchase consideration, paid via cash, for the acquisition of the Company's 66% interest was \$6,200,000 plus acquisition costs of \$51,015. The cost allocated to the exclusive professional services agreement which was acquired as part of this acquisition is \$9,471,235.

*Coastal Carolina Sedation Associates LLC (“CCSA”) – September 2020*

On September 1, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire a 51% interest in Coastal Carolina Sedation Associates LLC (“CCSA”), a gastroenterology anesthesia services provider in North Carolina. The purchase consideration, paid via cash, for the acquisition of the Company's 51% interest was \$1,800,000 plus acquisition costs of \$50,381. The cost allocated to the exclusive professional services agreement which was acquired as part of this acquisition is \$3,628,197.

CRH’s start-up joint venture in North Carolina, called Western Carolina Anesthesia Associates LLC, began operations in October 2020. Initially, the Company will own a 15% interest. WCAA began operating on October 1, 2020 and provides services to a single ambulatory surgery center.

### **Critical Accounting Policies and Estimates**

There are no changes to our critical accounting policies and estimates from those disclosed in our annual MD&A contained in our Annual Report Form 10-K for the year ended December 31, 2019, except as follows:

- (i) *Government assistance* - In general, a government grant is recognized if it is probable that it will be received and that the Company will comply with the conditions associated with the grant. If the conditions are met, the Company recognizes the grant in profit or loss on a systematic basis in line with its recognition of the expenses that the grant is intended to compensate for. For grants related to income, a Company can elect to either offset the grant against the related expenditures or include it in other income. Government assistance received by the Company during the period which met the recognition criteria, have been accounted for as government grants related to income and have been included in other income. Where stimulus is received in the form of a forgivable loan, such as the Paycheck Protection Program (“PPP”), the Company has opted to apply government grant accounting and will recognize the proceeds within other income upon concluding that forgiveness of the loan is probable and that the Company has complied with the relevant provisions of the program. If forgiveness of the loan is not probable, it is presented as a loan on the balance sheet as of the end of the reporting period.
- (ii) *Investments* – As a result of the Company’s investment in an anesthesia revenue cycle management organization, the Company has adopted a new accounting policy in the period. In accordance with ASC 323: Investments – Equity Method and Joint Ventures, where the Company exerts virtually no influence over an investment, the Company will account for the investment at cost, using the measurement alternative permitted under ASC 312: Investments – Equity Securities. Equity securities without a readily determinable fair value are recorded at cost, minus impairment, if any.

### **Recent Accounting Pronouncements**

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies that are adopted by us as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued standards that are not yet effective will not have a material impact on our financial position or results of operations upon adoption.

Please refer to Note 3 to our condensed consolidated interim financial statements included in Part I, Item 1, "Financial Statements" of this Quarterly Report on Form 10-Q for a description of recent accounting pronouncements applicable to our business.

### **Results of Operations**

The following tables provide a detailed analysis of our results of operations and financial condition. For each of the periods indicated below, we present our revenues by business segment, as well as present key metrics, such as operating expenses, operating income and net and comprehensive income attributable to shareholders of the company and non-controlling interest, from our statements of operations.

The selected financial information provided below has been prepared in accordance with United States Generally Accepted Accounting Principles (“US GAAP”).

## SELECTED US GAAP FINANCIAL INFORMATION

	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Anesthesia services revenue	\$ 27,983,903	\$ 27,966,629	0%	\$ 63,561,613	\$ 82,685,905	(23)%
Product sales revenue	\$ 2,365,549	\$ 2,448,174	(3)%	\$ 5,827,537	\$ 7,330,147	(20)%
<b>Total revenue</b>	<b>30,349,452</b>	<b>30,414,803</b>	<b>(0)%</b>	<b>69,389,150</b>	<b>90,016,052</b>	<b>(23)%</b>
<b>Total operating expenses, including:</b>	<b>30,264,625</b>	<b>26,702,177</b>	<b>13%</b>	<b>79,950,641</b>	<b>77,891,445</b>	<b>3%</b>
Depreciation and amortization expense	10,760,397	8,555,909	26%	29,686,467	25,974,283	14%
Stock based compensation expense	652,967	706,479	(8)%	1,900,960	280,348	578%
<b>Operating income (loss)</b>	<b>84,827</b>	<b>3,712,626</b>	<b>(98)%</b>	<b>(10,561,491)</b>	<b>12,124,607</b>	<b>(187)%</b>
<b>Operating margin</b>	<b>0.3%</b>	<b>12.2%</b>		<b>(15.2)%</b>	<b>13.5%</b>	
<b>(Gain) Loss from equity investment</b>	<b>—</b>	<b>(77,278)</b>	<b>(100)%</b>	<b>37,839</b>	<b>(416,584)</b>	<b>(109)%</b>
<b>Net finance expense</b>	<b>441,967</b>	<b>1,125,410</b>	<b>(61)%</b>	<b>1,386,007</b>	<b>5,696,343</b>	<b>(76)%</b>
<b>Other income</b>	<b>(289,669)</b>	<b>—</b>	<b>NA</b>	<b>(5,146,488)</b>	<b>—</b>	<b>NA</b>
<b>Tax expense (recovery)</b>	<b>(376,237)</b>	<b>565,165</b>	<b>(167)%</b>	<b>(1,584,165)</b>	<b>736,052</b>	<b>(315)%</b>
<b>Net and comprehensive income (loss)</b>	<b>\$ 308,766</b>	<b>\$ 2,099,329</b>	<b>(85)%</b>	<b>\$ (5,254,684)</b>	<b>\$ 6,108,796</b>	<b>(186)%</b>
Attributable to:						
Shareholders of the Company	\$ (337,954)	\$ 982,368	(134)%	\$ (5,324,264)	\$ 2,552,084	(309)%
Non-controlling interest <sup>1</sup>	\$ 646,720	\$ 1,116,961	(42)%	\$ 69,580	\$ 3,556,712	(98)%
<b>Net cash provided by operating activities</b>	<b>\$ 7,816,677</b>	<b>\$ 10,711,163</b>	<b>(27)%</b>	<b>\$ 24,795,713</b>	<b>\$ 32,669,879</b>	<b>(24)%</b>
<b>Distributions to non-controlling interest</b>	<b>(3,952,150)</b>	<b>(3,615,819)</b>	<b>9%</b>	<b>(8,688,260)</b>	<b>(11,804,480)</b>	<b>(26)%</b>
Net cash provided by operating activities less distributions to non-controlling interest	\$ 3,864,527	\$ 7,095,344	(46)%	\$ 16,107,453	\$ 20,865,399	(23)%
Earnings (loss) per share attributable to shareholders:						
Basic	\$ (0.005)	\$ 0.014		\$ (0.074)	\$ 0.036	
Diluted	\$ (0.005)	\$ 0.013		\$ (0.074)	\$ 0.035	

## NON-GAAP FINANCIAL MEASURES

In addition to results reported in accordance with US GAAP, the Company uses certain non-GAAP financial measures as supplemental indicators of its financial and operating performance as we believe these non-GAAP measures will be useful to investors as this presentation is in line with how our management assesses our Company's performance. These non-GAAP financial measures include Adjusted operating EBITDA, Adjusted operating EBITDA margin and Adjusted operating expenses. The Company believes these supplementary financial measures reflect the Company's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in its business.

## SELECTED FINANCIAL INFORMATION – NON-GAAP MEASURES<sup>1</sup>

	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	% Change	2020	2019	% Change
<b>Total Adjusted operating expenses</b>	<b>\$ 18,794,423</b>	<b>\$ 17,356,762</b>	<b>8%</b>	<b>\$ 48,211,298</b>	<b>\$ 50,582,441</b>	<b>(5)%</b>
Adjusted operating EBITDA – non - controlling interest <sup>2</sup>	3,877,120	3,666,296	6%	8,803,942	11,615,128	(24)%
<b>Adjusted operating EBITDA - shareholders of the Company</b>	<b>7,967,578</b>	<b>9,391,746</b>	<b>(15)%</b>	<b>17,520,398</b>	<b>27,818,484</b>	<b>(37)%</b>
<b>Adjusted operating EBITDA - total</b>	<b>\$ 11,844,698</b>	<b>\$ 13,058,042</b>	<b>(9)%</b>	<b>\$ 26,324,340</b>	<b>\$ 39,433,612</b>	<b>(33)%</b>
<b>Adjusted operating EBITDA margin</b>	<b>39.0%</b>	<b>42.9%</b>		<b>37.9%</b>	<b>43.8%</b>	

<sup>1</sup> See "Use of Non-GAAP Financial Measures" below for a reconciliation of GAAP-based measures to Non-GAAP-based measures.

<sup>2</sup> Non-controlling interest reflects the ownership interest of persons holding non-controlling interests in non-wholly owned subsidiaries of the Company.



## Results of Operations for the three and nine months ended September 30, 2020 and 2019

Revenues for the three months ended September 30, 2020 were \$30,349,452 compared to \$30,414,803 for the three months ended September 30, 2019. The 0.2% decrease is mainly attributable to case volume declines with sites continuing to resume activities from previous closures as a result of COVID-19, offset by acquisition activities in the period. Product sales revenue declined due to reduced activity levels as a result of COVID-19.

Revenues from anesthesia services for the three months ended September 30, 2020 were \$27,983,903 compared to \$27,966,629 for the three months ended September 30, 2019. While the Company saw some increases as a result of the Company's anesthesia acquisitions completed in 2019 and 2020; this favorable revenue activity was offset by case volume declines as a result of the continued impact of COVID-19 closures during the quarter. While total anesthesia revenue was consistent, quarter over quarter, there were a number of different factors driving revenue in the quarter, as follows:

- growth through acquisitions completed in 2019 and 2020 contributed \$3.8 million to revenue when comparing the two periods;
- after excluding case growth from acquisitions, above, cases declined by 8.6% from cases reported in the third quarter of 2019, equivalent to \$2.4 million in revenue. The decline in case growth is related to the continued impact of COVID-19 during the quarter;
- as a result of our rate strategy, we've seen favorable rate variances resulting in an approximately \$0.4 million increase when compared to 2019;
- included within the third quarter of 2020 revenue is a negative prior period revenue adjustment of approximately \$0.8 million. In contrast, in the third quarter of 2019 we recognized a positive \$0.8 million prior period revenue adjustment based on actual recoveries compared to our estimates; and
- revenue related to services provided to non-owned anesthesia entities decreased by \$0.1 million.

Revenues from anesthesia services for the nine months ended September 30, 2020 were \$63,561,613 compared to \$82,685,905 for the nine months ended September 30, 2019. While the Company saw some increases as a result of the Company's anesthesia acquisitions completed in 2019 and 2020; COVID-19 was the primary driver of the decline in revenues period over period, with most of the impact of COVID-19 occurring in the second quarter of 2020. The overall \$19.1 million decrease in revenue compared to the prior period is reflective of the following:

- growth through acquisitions completed in 2019 and 2020 contributed \$8.1 million to revenue when comparing the two periods;
- after excluding case growth from acquisitions, above, cases declined by 27.4% from cases reported in the first nine months of 2019, equivalent to \$21.2 million in revenue. The decline in case growth is related to temporary closures of anesthesia service centers and decreased case volumes where we provide our services. Many locations started closures as early as mid-March due to the COVID-19 pandemic, with many subsequently resuming services in May and June 2020 and early in the third quarter of 2020;
- changes in non-contracted payor reimbursement strategies and payor mix, primarily related to entities acquired prior to 2019, decreased 2020 revenue by approximately \$2.3 million when compared to 2019;
- included within the first nine months of 2020 revenue is a negative prior period revenue adjustment of approximately \$1.1 million. In contrast, in the first nine months of 2019 we recognized a positive \$2.4 million prior period revenue adjustment based on actual recoveries compared to our estimates; and
- revenue related to services provided to non-owned anesthesia entities decreased by \$0.2 million.

In the quarter ended September 30, 2020, the anesthesia services segment serviced 94,052 patient cases compared to 88,733 patient cases during the quarter ended September 30, 2019, inclusive of cases from acquisitions completed in 2020. For 2019 periods presented, patient cases exclude any patient cases serviced by TSA, an equity held investment as of September 30, 2019. In the nine months ended September 30, 2020, the anesthesia services segment serviced 214,963 patient cases compared to 250,890 patient cases during the nine months ended September 30, 2019.

The tables below summarize our payor mix as a percentage of all patient cases for the three and nine months ended September 30, 2020 and 2019.

Payor	Three months ended			Nine months ended		
	September 30, 2020	September 30, 2019	Change	September 30, 2020	September 30, 2019	Change
Commercial	56.9%	57.8%	(1.5)%	56.2%	57.8%	(2.8)%
Federal	43.1%	42.2%	2.1%	43.8%	42.2%	3.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>		<b>100.0%</b>	<b>100.0%</b>	

The payor mix for the three and nine months ended September 30, 2020 includes acquisitions completed during 2019 and 2020 and as a result is not directly comparable to the three and nine months ended September 30, 2019. As we acquire anesthesia providers, these providers may have different payor mix profiles and impact our overall payor mix above.

The table below summarizes our approximate payor mix as a percentage of all patient cases for the three and nine months ended September 30, 2020 and 2019, but exclude patient cases related to acquisitions completed in 2019 and 2020 as inclusion of these acquisitions would reduce comparability of the data presented.

Payor	Three months ended			Nine months ended		
	September 30, 2020	September 30, 2019	Change	September 30, 2020	September 30, 2019	Change
Commercial	58.8%	58.7%	0.2%	58.1%	58.4%	(0.5)%
Federal	41.2%	41.3%	(0.2)%	41.9%	41.6%	0.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>		<b>100.0%</b>	<b>100.0%</b>	

Revenues from product sales for the three months ended September 30, 2020 were \$2,365,549 compared to \$2,448,174 for the comparable period in 2019. Product sales volume continued to be impacted by the effect of COVID-19 in the period. As of September 30, 2020, the Company has trained 3,228 physicians to use the O'Regan System, representing 1,244 clinical practices. This compares to 3,099 physicians trained, representing 1,177 clinical practices, as of September 30, 2019.

#### *Total operating expenses*

Total operating expense for the three months ended September 30, 2020 was \$30,264,625 compared to \$26,702,177 for the three months ended September 30, 2019. The increase in operating expenses is in part driven by the increase in case volumes associated with our acquisitions completed in the last quarter of 2019 and in 2020. While non-acquisition driven anesthesia cases and revenue declined due to COVID-19, payroll expenses, which are generally fixed, respond more slowly to changes in volume. As a result of COVID-19, CRH engaged in workforce reductions primarily occurring within the Company's contracted workforce. Wherever possible, the Company worked to retain its employee workforce. As a result, total operating expenses, excluding expenses relating to acquisitions completed in Q4 2019 and 2020, did not decline in line with revenues. Government assistance received to encourage this retention of employee workforce has been recognized in other income totaling \$289,669 in the period. In addition to additional expenses arising from new entities acquired, amortization expense and stock-based compensation expense increased compared to the third quarter of 2019 – see below. Total operating expense for the nine months ended September 30, 2020 was \$79,950,641 compared to \$77,891,445 for the nine months ended September 30, 2019.

Amortization expense for the three months ended September 30, 2020 increased by 26% from 2019. This is a result of the incremental amortization expense related to asset acquisitions completed in 2019 and 2020 and the related intangible assets that were acquired. Amortization expense for the nine months ended September 30, 2020 similarly increased by 14% from the comparable period in 2019.

Stock-based compensation expense for the three months ended September 30, 2020 decreased slightly compared to 2019. In contrast, stock-based compensation expense for the nine months ended September 30, 2020 increased by \$1,620,612 when compared to the first nine months of 2019. This increase is a result of forfeiture expenses in the second quarter of 2019 relating to the departure of the Company's previous CEO.

### *Total adjusted operating expenses – Non-GAAP<sup>1</sup>*

For the three months ended September 30, 2020, total adjusted operating expenses were \$18,794,423 compared to \$17,356,762 for the three months ended September 30, 2019. For the nine months ended September 30, 2020, total adjusted operating expenses were \$48,211,298 compared to \$50,582,441 for the nine months ended September 30, 2019. In general, increases seen in adjusted operating expenses are primarily related to adjusted operating expenses in the anesthesia services business as a result of recent acquisitions as well as within our corporate segment.

Anesthesia services adjusted operating expenses for the three months ended September 30, 2020 were \$16,022,431, compared to \$15,035,726 for the three months ended September 30, 2019. Anesthesia services adjusted operating expenses for the nine months ended September 30, 2020 were \$40,532,964, compared to \$43,423,209 for the nine months ended September 30, 2019. Anesthesia services adjusted operating expenses primarily include labor related costs for Certified Registered Nurse Anesthetists and MD anesthesiologists, billing and management related expenses, medical drugs and supplies, and other related expenses. With the Company completing acquisitions in both 2019 and 2020, the third quarter of 2020 is not directly comparable. Though revenue may fluctuate, adjusted operating expenses, which are primarily employee related costs, due to their fixed nature, primarily increase or decrease as a result of the Company's acquisition strategy or as a result of other than temporary case volume reductions. For the nine months ended September 30, 2020, as noted above, beginning April 2020, the Company was able to reduce its contracted workforce for anesthesia case volume declines and therefore reduce its operating expenses; this most significantly impacted the second quarter of 2020 where case volumes saw significant declines as a result of COVID-19. Additionally, the Company's billing related expenses declined as a result of case volume declines as billing related expenses are based on a percentage revenue. Other ancillary expenses such as travel and entertainment were also curtailed, contributing to the overall decline in Anesthesia services adjusted operating expenses when comparing year to date 2020 to the comparable period in 2019. These costs were affected to a lesser extent in the third quarter of 2020, with case volumes resuming normal activity levels by the end of the quarter.

Total adjusted operating expenses per case<sup>1</sup> for the anesthesia segment were \$170 per case for the three months ended September 30, 2020 and is comparable to the \$169 per case seen in the third quarter of 2019. Total adjusted operating expenses per case<sup>1</sup> for the anesthesia segment were \$189 per case for the nine months ended September 30, 2020 compared to the \$173 seen in the nine months ended September 30, 2019. This case rate is higher than that experienced in 2019 due to the lower year to date case volumes in 2020. While the Company was able to respond to lower case volumes with contracted workforce reductions, the Company also retained as many of its employees as possible. Government stimulus meant to encourage employee workforce retention has been recognized in other income and therefore has not been applied against the costs of retention efforts embedded within adjusted operating expenses.

Product sales adjusted operating expenses for the three months ended September 30, 2020 were \$979,684 compared to \$1,002,070 for the three months ended September 30, 2019. In general, expenses have returned to pre-COVID levels as a result of the recovery of product sales activity. Product sales adjusted operating expenses for the nine months ended September 30, 2020 were \$2,732,801 compared to \$3,185,768 for the nine months ended September 30, 2019.

Corporate adjusted operating expenses for the three months ended September 30, 2020 were \$1,792,308 compared to \$1,318,966 for the three months ended September 30, 2019. Corporate expenses have increased when compared to 2019 as a result of increases in corporate and other professional fees. In general, the increases seen in corporate and professional fees are reflective of the increasing complexity of our business which is also increasing our compliance costs. Corporate adjusted operating expenses for the nine months ended September 30, 2020 were \$4,945,533 compared to \$3,973,464 for the nine months ended September 30, 2019.

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<sup>1</sup> See "Use of Non-GAAP Financial Measures" below for a reconciliation of GAAP-based measures to Non-GAAP-based measures.

### Operating Income (Loss)

Operating income for the three months ended September 30, 2020 was \$84,827 compared to operating income of \$3,712,626 for the same period in 2019. Operating loss for the nine months ended September 30, 2020 was \$10,561,491 compared to operating income of \$12,124,607 for the same period in 2019. The following schedule reconciles the changes in operating income between periods:

	Three months ended September 30, 2020	Nine months ended September 30, 2020
Operating income – comparable period 2019	\$ 3,712,626	\$ 12,124,607
Decrease in period revenues	(65,351)	(20,626,903)
(Increase) decrease in period adjusted operating expenses <sup>1</sup>	(1,437,659)	2,371,149
Increase in period amortization and depreciation expense	(2,204,487)	(3,712,183)
(Increase) decrease in period stock based compensation expense	53,512	(1,620,612)
Decrease in other non-recurring expenses	—	930,917
Inventory write-down in the period	—	(64,911)
Decrease in period acquisition expenses	26,186	36,445
Operating income (loss) - 2020	<u>\$ 84,827</u>	<u>\$ (10,561,491)</u>

Changes in the Company's revenues and adjusted operating expenses<sup>1</sup> are described above within their respective sections. Fluctuations in revenue will not necessarily result in correlating fluctuations in operating expenses due to the fixed nature of these costs and as such will impact operating income.

The primary driver of the decline in operating income is the reduction in anesthesia non-acquisition related case volume in the quarter. While total anesthesia revenue is consistent with the previous quarter, this is largely due to positive variances arising from acquisition activity offsetting reductions in revenue related to case volumes and prior period estimate adjustments. Contributing to the decrease in operating income for the three months ended September 30, 2020 are incremental amortization costs relating to acquired professional services agreements in 2019 and 2020. For the nine months ended September 30, 2020, the primary driver of the decline in operating income is the reduction in anesthesia and product revenues in the period, with the majority of the reduction directly correlated with COVID-10 and its impact on the Company's anesthesia case and product sales volumes. With many expenses being slow to respond to changes in volume due to their fixed nature, any change in revenue, specifically case volume, directly impacts operating income until the Company is able to respond via workforce reductions. Contributing to the decrease in operating income for the nine months ended September 30, 2020 are incremental amortization costs, similar to the quarter, as well as increases seen in stock-based compensation expense.

Anesthesia operating income for the three months ended September 30, 2020 was \$1,020,006, compared to income of \$4,192,580 for the same period in 2019. Anesthesia operating loss for the nine months ended September 30, 2020 was \$7,019,368, compared to income of \$12,881,014 for the same period in 2019. The decrease in the quarter and in the nine month period is primarily reflective of the decrease in adjusted operating EBITDA<sup>1</sup> in the quarter (calculated above as revenues less adjusted operating expenses), in conjunction with an incremental increase in amortization expense in the quarter of \$2,206,843 when comparing the third quarter of 2020 to the third quarter of 2019. As above, for the three months ended September 30, 2020, the reduction in adjusted operating EBITDA<sup>1</sup> is largely a reflection of anesthesia volume declines for established entities as a result of COVID-19. For the nine months ended September 30, 2020, the reduction in adjusted operating EBITDA<sup>1</sup> is largely a reflection of the declines in anesthesia revenue, the majority of which is related to COVID-19, offset by measures taken to reduce contracted workforce expenses.

Product operating income for the three months ended September 30, 2020 was \$1,284,688, a decrease of \$74,170 from the same period in 2019. The slight decline in operating income is a reflection of the impact of the effect on COVID-19 on product sales volume in the period. Product operating income for the nine months ended September 30, 2020 was \$2,802,279, a decrease of \$1,086,661 from the same period in 2019. The decline in operating income is primarily driven by the decline in revenues in the period as a result of COVID-19 and its impact on sales in the year to date period.

### Adjusted operating EBITDA<sup>1</sup> – Non-GAAP

Adjusted operating EBITDA attributable to shareholders of the Company for the three months ended September 30, 2020 was \$7,967,578, a decrease of \$1,424,168 when compared to the three months ended September 30, 2019. The decrease in adjusted

<sup>1</sup> See "Use of Non-GAAP Financial Measures" below for definitions and reconciliations of GAAP-based measures to Non-GAAP-based measures.

<sup>1</sup> See "Use of Non-GAAP Financial Measures" below for a reconciliation of GAAP-based measures to Non-GAAP-based measures.

operating EBITDA attributable to shareholders is primarily a reflection of the overall net decline in revenue (described within the revenue section, but, in effect, attributable to COVID-19). Adjusted operating EBITDA attributable to shareholders of the Company for the nine months ended September 30, 2020 was \$17,520,398, a decrease of \$10,298,086 when compared to the nine months ended September 30, 2019. The decrease in adjusted operating EBITDA attributable to shareholders is primarily a reflection of the overall net decline in revenue (described within the revenue section, but, in effect, attributable to COVID-19) offset by reductions in adjusted operating expenses. While revenue declined due to case volume decreases due to COVID-19, the Company took measures to reduce operating expenses, primarily payroll related, beginning early April 2020. With the majority of its anesthesia locations open and resuming operations in May and June 2020, the Company's provider staffing expenses resumed. Note that for the purposes of calculating adjusted operating EBITDA, other income of \$3,945,214 arising from the receipt of government assistance has been included for the nine months ended September 30, 2020 (three months ended September 30, 2020: \$248,402). It is management's opinion that this most accurately reflects the financial performance of the Company as the Company may have incurred further workforce reductions to offset reduced revenue volume were it not for the receipt of these incentives.

Adjusted operating EBITDA attributable to non-controlling interest was \$3,877,120 for the three months ended September 30, 2020, compared to \$3,666,296 for the three months ended September 30, 2019. Note that for comparative purposes, the Company acquired the non-controlling 49% in Arapahoe in April 2019 and CCAA in August 2019; the financial results of these entities are now included 100% in adjusted operating EBITDA attributable to shareholders. Adjusted operating EBITDA attributable to non-controlling interest was \$8,803,942 for the nine months ended September 30, 2020, compared to \$11,615,128 for the nine months ended September 30, 2019. Other income of \$1,201,274 arising from the receipt of government assistance has been included in the calculation of adjusted operating EBITDA attributable to non-controlling interest for the nine months ended September 30, 2020 (three months ended September 30, 2020: \$41,267).

Total adjusted operating EBITDA was \$11,844,698 for the three months ended September 30, 2020, a decrease of 9% from the same period in 2019. Total adjusted operating EBITDA was \$26,324,340 for the nine months ended September 30, 2020, a decrease of 33% from the same period in 2019.

#### *Net finance expense*

As a result of the Company's debt facilities and long-term finance obligations, including its earn-out obligations, the Company has recorded a net finance expense of \$441,967 and \$1,386,007 for the three and nine months ended September 30, 2020, respectively, compared to net finance expense of \$1,125,410 and \$5,696,343 for the three and nine months ended September 30, 2019, respectively. Net finance expense is comprised of both interest and other debt related expenses, including fair value adjustments. Fair value adjustments related to the Company's earn-out obligation are the primary driver of significant fluctuations in finance expense between comparable periods.

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Finance expense:				
Interest and accretion expense on borrowings	\$ 431,925	\$ 848,369	\$ 1,459,837	\$ 2,556,527
Accretion expense on earn-out obligation and deferred consideration	15,925	10,145	32,833	123,305
Amortization of deferred financing fees	90,411	65,091	269,424	195,273
Net change in fair value of financial liabilities at fair value through earnings	(96,294)	181,805	(376,087)	2,771,238
Other	—	20,000	—	50,000
<b>Total finance expense</b>	<b>\$ 441,967</b>	<b>\$ 1,125,410</b>	<b>\$ 1,386,007</b>	<b>\$ 5,696,343</b>

During the three and nine months ended September 30, 2020, the Company recognized a fair value adjustment (recovery) of \$96,294 and \$376,087, respectively, in respect of its earn-out obligation compared to a fair value adjustment (expense) of \$181,805 and \$2,771,238 for the three and nine months ended September 30, 2019, respectively. The fair value adjustment resulted from changes in estimates underlying the Company's earn-out obligation. The changes in estimates underlying the Company's earn-out obligation were driven primarily by the changes in cash flow estimates, which were driven by revenue collection rates per unit during the earn-out period.

Cash interest paid in the three months ended September 30, 2020 was \$479,023 compared to \$772,680 cash interest paid in the comparable period of 2019. Cash interest paid in the nine months ended September 30, 2020 was \$1,547,068 compared to \$2,532,084 cash interest paid in the comparable period of 2019. The decrease in cash interest paid is reflective of the lower LIBOR rates in 2020 as well as the credit spread on the Company's current JP Morgan Facility being lower than its previous Scotia Facility. As at September 30, 2020, the Company owed \$75,848,120 under its JP Morgan Facility as compared to \$69,341,370 owed at December 31, 2019.

### *(Gain) Loss from Equity Investment*

Equity income was derived from the Company's 15% equity interest in Triad Sedation Associates LLC ("TSA"). TSA began operating in February 2019 and was the result of an agreement between CRH and Digestive Health Specialists ("DHS"), located in North Carolina, whereby CRH assisted DHS in the development and management of a monitored anesthesia care program. Under the terms of the agreement, CRH was a 15% equity owner in the anesthesia business and received compensation for its billing and collection services. Under the terms of the limited liability company agreement, CRH had the right, at CRH's option, to acquire an additional 36% interest in the anesthesia business at a future date, which it exercised in November 2019. Upon exercise of the option, CRH obtained control of TSA and TSA was therefore consolidated 100% within the results of CRH from the date control was acquired. As a result, TSA is not an equity investment as at September 30, 2020, thus causing the decline in equity income when comparing the third quarter of 2020 to the third quarter of 2019 and when comparing the year to date periods.

### *Income tax expense (recovery)*

For the three and nine months ended September 30, 2020, the Company recorded an income tax recovery of \$376,237 and \$1,584,165, respectively compared to income tax expense of \$565,165 and \$736,052 for the three and nine months ended September 30, 2019. Income tax expense relates only to income attributable to the Company's shareholders and the income tax recovery in the period is driven by the Company's net loss before tax, which in turn is driven by the impact COVID-19 has had on the Company's operating results.

### *Net and comprehensive (loss) income*

For the three months ended September 30, 2020, the Company recorded a net and comprehensive loss attributable to shareholders of the Company of \$337,954 compared to a net and comprehensive income attributable to shareholders of \$982,368 for the three months ended September 30, 2019. The change from income to a loss quarter over quarter is largely a reflection of the decrease in adjusted operating EBITDA attributable to shareholders which is largely driven by the impact of COVID-19 on anesthesia case volumes in the quarter. For the nine months ended September 30, 2020, the Company recorded a net and comprehensive loss attributable to shareholders of the Company of \$5,324,264 compared to a net and comprehensive income attributable to shareholders of \$2,552,084 for the nine months ended September 30, 2019.

Net and comprehensive income attributable to non-controlling interest was \$646,720 for the three months ended September 30, 2020 compared to net and comprehensive income attributable to non-controlling interest of \$1,116,961 for the three months ended September 30, 2019. Consistent with the loss attributable to shareholders, the net and comprehensive income attributable to non-controlling interest in the period is a result of the impact COVID-19 has had on the Company's operating results in the quarter. Additionally, the Company acquired the non-controlling 49% in Arapahoe in April 2019 and CCAA in August 2019; the financial results of these entities are now included 100% in adjusted operating EBITDA attributable to shareholders. Net and comprehensive income attributable to non-controlling interest was \$69,580 for the nine months ended September 30, 2020 compared to the net and comprehensive income attributable to non-controlling interest of \$3,556,712 for the nine months ended September 30, 2019.

### **Use of Non-GAAP Financial Measures**

As discussed above, in addition to results reported in accordance with US GAAP, the Company uses certain non-GAAP financial measures, including adjusted operating expenses (in total and broken down by operating segment), adjusted operating EBITDA (in total and broken down as attributable to non-controlling interest and shareholders of the Company), and adjusted operating EBITDA margin as supplemental indicators of its financial and operating performance. These non-GAAP measures are not recognized measures under US GAAP and do not have a standardized meaning prescribed by U.S. Generally Accepted Accounting Principles ("US GAAP") and thus the Company's definition may be different from and unlikely to be comparable to non-GAAP measures presented by other companies. These measures are provided as additional information to complement US GAAP measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analyses of the Company's financial information reported under US GAAP. Management uses these non-GAAP measures to provide investors with a supplemental measure of the Company's operating performance and thus highlight trends in the Company's core business that may not otherwise be apparent when relying solely on US GAAP financial measures. Management also believes that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers. In addition, management uses these non-GAAP measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets, and to assess its ability to meet future debt service, capital expenditure, and working capital requirements. The definitions of these measures, as well as a reconciliation of the most directly comparable financial measure calculated and presented in accordance with GAAP to each non-GAAP measure, are presented below.

**Adjusted operating EBITDA:** The Company defines adjusted operating EBITDA as operating earnings before interest, taxes, depreciation, amortization, stock based compensation, acquisition related expenses, asset impairment charges and other non-recurring expenses plus other income related to government assistance. Adjusted operating EBITDA is presented on a basis consistent with the Company's internal management reports. The Company analyzes and discloses adjusted operating EBITDA to capture the profitability of its business before the impact of items not considered in management's evaluation of operating unit performance.

**Adjusted operating EBITDA margin.** The Company defines adjusted operating EBITDA margin as operating earnings before interest, taxes, depreciation, amortization, stock based compensation, acquisition related expenses, asset impairment charges and other non-recurring expenses plus other income related to government assistance as a percentage of revenue. Adjusted operating EBITDA margin is presented on a basis consistent with the Company's internal management reports. The Company analyzes and discloses adjusted operating EBITDA margin to capture the profitability of its business before the impact of items not considered in management's evaluation of operating performance.

**Adjusted operating expenses:** The Company defines adjusted operating expenses as operating expenses before acquisition related expenses, stock based compensation, depreciation, amortization, asset impairment charges and other non-recurring expenses. Adjusted operating expenses are presented on a basis consistent with the Company's internal management reports. The Company analyzes and discloses adjusted operating expenses to capture the operating cost of the business before the impact of items not considered in management's evaluation of operating costs.

**Adjusted operating expense per case – Anesthesia segment:** The Company defines adjusted operating expense per case for the anesthesia segment as adjusted operating expense for the anesthesia segment divided by anesthesia cases serviced in the period. The Company analyzes and discloses adjusted operating expenses to capture the operating cost of the business before the impact of items not considered in management's evaluation of operating costs and evaluates these costs as a per case metric.

The Company's management believes that the presentation of the above defined Non-GAAP financial measures provides useful information to investors because they reflect the Company's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in its business. In addition, they portray the financial results of the Company before the impact of certain non-operational charges. The use of the term "non-operational charge" is defined for this purpose as an expense that does not impact the ongoing operating decisions taken by the Company's management. These items are excluded based upon the way the Company's management evaluates the performance of the Company's business for use in the Company's internal reports and are not excluded in the sense that they may be used under US GAAP.

The Company does not acquire businesses on a predictable cycle, and therefore believes that the presentation of non-GAAP measures, which adjusts for the impact of amortization of intangible assets, will provide readers of financial statements with a more consistent basis for comparison across accounting periods and be more useful in helping readers understand the Company's operating results and underlying operational trends.

In summary, the Company believes the provision of supplemental Non-GAAP measures allow investors to evaluate the operational and financial performance of the Company's core business using the same evaluation measures that management uses and is therefore a useful indication of CRH's performance or expected performance of future operations and facilitates period-to-period comparison of operating performance (although prior performance is not necessarily indicative of future performance). As a result, the Company considers it appropriate and reasonable to provide, in addition to U.S. GAAP measures, supplementary Non-GAAP financial measures that exclude certain items from the presentation of its financial results.

The following charts provide unaudited reconciliations of US GAAP-based financial measures to Non-GAAP-based financial measures for the following periods presented:

*Reconciliation of selected GAAP-based measures to Non-GAAP-based measures*

**ADJUSTED OPERATING EBITDA**

<i>(USD in thousands)</i>	2020				2019			
	YTD	Q3 '20	Q2 '20	Q1 '20	YTD	Q3 '19	Q2 '19	Q1 '19
<b>Net and comprehensive income (loss)</b>	<u>(5,254)</u>	<u>309</u>	<u>(3,428)</u>	<u>(2,135)</u>	<u>6,109</u>	<u>2,099</u>	<u>2,619</u>	<u>1,391</u>
Net finance expense	1,386	442	447	497	5,696	1,125	2,179	2,392
(Gain) loss on equity investment	38	—	22	16	(416)	(77)	(214)	(125)
Income tax expense (recovery)	(1,584)	(376)	(234)	(974)	736	565	4	167
Other income - government assistance	<u>(5,147)</u>	<u>(290)</u>	<u>(4,857)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Operating income (loss)</b>	<u>(10,561)</u>	<u>85</u>	<u>(8,049)</u>	<u>(2,597)</u>	<u>12,125</u>	<u>3,713</u>	<u>4,587</u>	<u>3,825</u>
Amortization expense	29,604	10,735	9,489	9,380	25,892	8,528	8,723	8,641
Depreciation and related expense	83	26	28	29	82	28	27	27
Stock based compensation	1,901	653	595	653	280	706	(990)	564
Acquisition expenses <sup>1</sup>	87	57	12	18	123	83	20	20
Inventory write-downs	65	—	—	65	—	—	—	—
Other non-recurring items <sup>2</sup>	—	—	—	—	931	—	931	—
Other income - government assistance	<u>5,147</u>	<u>290</u>	<u>4,857</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total adjusted operating EBITDA</b>	<u>26,324</u>	<u>11,845</u>	<u>6,932</u>	<u>7,547</u>	<u>39,433</u>	<u>13,058</u>	<u>13,298</u>	<u>13,077</u>
<b>Adjusted operating EBITDA attributable to:</b>								
Shareholders of the Company	17,520	7,968	4,681	4,871	27,819	9,392	9,661	8,766
Non-controlling interest	<u>8,804</u>	<u>3,877</u>	<u>2,251</u>	<u>2,676</u>	<u>11,615</u>	<u>3,666</u>	<u>3,638</u>	<u>4,311</u>

<sup>1</sup> Acquisition expenses relating to incomplete acquisitions

<sup>2</sup> Non-recurring expenses relating to the replacement of the Company's CEO

**ADJUSTED OPERATING EBITDA MARGIN**

<i>(USD in thousands)</i>	2020				2019			
	YTD	Q3 '20	Q2 '20	Q1 '20	YTD	Q3 '19	Q2 '19	Q1 '19
<b>Revenue</b>	69,389	30,349	13,585	25,455	90,016	30,415	30,482	29,119
<b>Operating income (loss)</b>	<u>(10,561)</u>	<u>85</u>	<u>(8,049)</u>	<u>(2,597)</u>	<u>12,125</u>	<u>3,713</u>	<u>4,587</u>	<u>3,825</u>
<b>Operating margin</b>	<u>(15.2%)</u>	<u>0.3%</u>	<u>(59.3%)</u>	<u>(10.2%)</u>	<u>13.5%</u>	<u>12.2%</u>	<u>15.0%</u>	<u>13.1%</u>
Amortization expense	42.7%	35.3%	69.9%	36.8%	28.8%	28.0%	28.6%	29.7%
Depreciation and related expense	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%
Stock based compensation	2.7%	2.2%	4.4%	2.6%	0.3%	2.3%	(3.2)%	1.9%
Acquisition expenses <sup>1</sup>	0.1%	0.1%	0.1%	0.1%	0.1%	0.3%	0.1%	0.1%
Inventory write-downs	0.1%	0.0%	(—)%	0.3%	(—)%	(—)%	(—)%	(—)%
Other non-recurring items <sup>2</sup>	(—)%	(—)%	(—)%	(—)%	1.0%	(—)%	3.1%	(—)%
Other income - government assistance	<u>7.4%</u>	<u>1.0%</u>	<u>35.8%</u>	<u>(—)%</u>	<u>(—)%</u>	<u>(—)%</u>	<u>(—)%</u>	<u>(—)%</u>
<b>Total adjusted operating EBITDA margin</b>	<u>37.9%</u>	<u>39.0%</u>	<u>51.0%</u>	<u>29.7%</u>	<u>43.8%</u>	<u>42.9%</u>	<u>43.6%</u>	<u>44.9%</u>

<sup>1</sup> Acquisition expenses relating to incomplete acquisitions

<sup>2</sup> Non-recurring expenses relating to the replacement of the Company's CEO



## ADJUSTED OPERATING EXPENSES

<i>(USD in thousands)</i>	2020				2019			
	YTD	Q3 '20	Q2 '20	Q1 '20	YTD	Q3 '19	Q2 '19	Q1 '19
<b>Anesthesia services expense</b>	<b>70,581</b>	<b>26,964</b>	<b>18,988</b>	<b>24,629</b>	<b>69,804</b>	<b>23,774</b>	<b>23,471</b>	<b>22,559</b>
Amortization expense	(29,602)	(10,734)	(9,489)	(9,379)	(25,890)	(8,527)	(8,722)	(8,641)
Depreciation and related expense	(11)	(3)	(4)	(4)	(9)	(3)	(3)	(3)
Stock based compensation	(349)	(148)	(67)	(134)	(359)	(125)	(117)	(117)
Acquisition expenses <sup>1</sup>	(87)	(57)	(12)	(18)	(123)	(83)	(20)	(20)
<b>Anesthesia services – adjusted operating expense</b>	<b>40,532</b>	<b>16,022</b>	<b>9,416</b>	<b>15,094</b>	<b>43,424</b>	<b>15,036</b>	<b>14,609</b>	<b>13,779</b>
<b>Product sales expense</b>	<b>3,025</b>	<b>1,081</b>	<b>753</b>	<b>1,191</b>	<b>3,440</b>	<b>1,089</b>	<b>1,217</b>	<b>1,134</b>
Amortization expense	(1)	(1)	—	—	(2)	(1)	(1)	—
Depreciation and related expense	(15)	(5)	(5)	(5)	(19)	(5)	(5)	(9)
Stock based compensation	(210)	(95)	(51)	(64)	(236)	(82)	(81)	(73)
Inventory write-downs	(65)	—	—	(65)	—	—	—	—
<b>Product sales - adjusted operating expense</b>	<b>2,733</b>	<b>980</b>	<b>696</b>	<b>1,057</b>	<b>3,186</b>	<b>1,002</b>	<b>1,131</b>	<b>1,053</b>
<b>Corporate expense</b>	<b>6,345</b>	<b>2,220</b>	<b>1,894</b>	<b>2,231</b>	<b>4,645</b>	<b>1,839</b>	<b>1,206</b>	<b>1,600</b>
Amortization expense	—	—	—	—	—	—	—	—
Depreciation and related expense	(57)	(18)	(19)	(20)	(55)	(20)	(20)	(15)
Stock based compensation	(1,343)	(410)	(478)	(455)	313	(500)	1,188	(375)
Other non-recurring items <sup>2</sup>	—	—	—	—	(931)	—	(931)	—
<b>Corporate - adjusted operating expenses</b>	<b>4,945</b>	<b>1,792</b>	<b>1,397</b>	<b>1,756</b>	<b>3,974</b>	<b>1,319</b>	<b>1,444</b>	<b>1,211</b>
<b>Total operating expense</b>	<b>79,951</b>	<b>30,265</b>	<b>21,634</b>	<b>28,052</b>	<b>77,891</b>	<b>26,702</b>	<b>25,895</b>	<b>25,294</b>
<b>Total adjusted operating expense</b>	<b>48,211</b>	<b>18,794</b>	<b>11,510</b>	<b>17,907</b>	<b>50,583</b>	<b>17,357</b>	<b>17,184</b>	<b>16,042</b>

<sup>1</sup> Acquisition expenses relating to incomplete acquisitions

## ADJUSTED OPERATING EXPENSE PER CASE – ANESTHESIA SEGMENT

<i>(USD in thousands, except case and per case amounts)</i>	2020				2019			
	YTD	Q3 '20	Q2 '20	Q1 '20	YTD	Q3 '19	Q2 '19	Q1 '19
Anesthesia services – adjusted operating expense	40,532	16,022	9,416	15,094	43,424	15,036	14,609	13,779
Anesthesia cases serviced	214,963	94,052	42,918	77,993	250,890	88,733	84,656	77,501
<b>Total adjusted operating expense per case - Anesthesia segment</b>	<b>189</b>	<b>170</b>	<b>219</b>	<b>194</b>	<b>173</b>	<b>169</b>	<b>173</b>	<b>178</b>

## Liquidity and Capital Resources

At September 30, 2020, the Company had \$5,099,498 in cash and cash equivalents compared to \$6,568,716 at the end of 2019. The decrease in cash and equivalents is primarily a reflection of cash generated from operations offset by cash utilized for acquisitions in 2020 and cash used to pay down the Company's credit facility with JP Morgan.

Working capital was \$18,241,050 at September 30, 2020 compared to working capital of \$18,677,498 at December 31, 2019. The Company expects to meet its short-term obligations, including short-term obligations in respect of its earn-out obligations and deferred consideration through cash earned through operating activities in conjunction with monies available under its credit facility.

The average number of days receivables outstanding at September 30, 2020 was 60 days. While still higher than the days receivable outstanding at December 31, 2019 (54 days), it is a marked improvement from the days receivable outstanding of 117 days at June 30, 2020. The days receivable outstanding at June 30, 2020 was considered to be a temporary increase due to the impact COVID-19 had on our anesthesia case volume and the timing of cash receipts. The Company continues to monitor this measure on an ongoing basis.

Cash provided by operating activities for the three months ended September 30, 2020 was \$7,816,677 compared to \$10,711,163 in the same period in fiscal 2019. Cash provided by operating activities less distributions to non-controlling interest was \$3,864,527 for the three months ended September 30, 2020 and \$7,095,344 for the same period in 2019. Cash used in investing activities for the three months ended September 30, 2020 was \$12,995,448 as compared to cash provided by investing activities of \$2,318,000 for the comparable period in 2019. Cash provided by financing activities was \$5,039,073 for the three months ended September 30, 2020 compared to cash used in financing activities of \$10,376,269 for the three months ended September 30, 2019.

Cash provided by operating activities for the nine months ended September 30, 2020 was \$24,795,713 compared to \$32,669,879 in the same period in fiscal 2019. Cash provided by operating activities less distributions to non-controlling interest was \$16,107,453 for the nine months ended September 30, 2020 and \$20,865,399 for the same period in 2019. Cash used in investing activities for the nine months ended September 30, 2020 was \$21,537,585 as compared to \$4,792,158 for the comparable period in 2019. Cash used in financing activities was \$4,727,879 for the nine months ended September 30, 2020 compared to \$32,611,017 for the nine months ended September 30, 2019.

For the three and nine months ended September 30, 2019, the statements of cash flows were adjusted to reclassify Acquisition of equity interest from non-controlling interest from investing activities to financing activities given that the transaction is among owners. As a result, net cash flows from investing activities and financing activities are presented as follows:

	As previously presented		Adjustment		As currently presented	
	Three months ended September 30, 2019	Nine months ended September 30, 2019	Three months ended September 30, 2019	Nine months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2019
Cash flows from financing activities	\$ (3,357,611)	\$ (23,177,008)	\$ (7,018,658)	\$ (9,434,009)	\$ (10,376,269)	\$ (32,611,017)
Cash flows from investing activities	\$ (4,700,658)	\$ (14,226,167)	\$ 7,018,658	\$ 9,434,009	\$ 2,318,000	\$ (4,792,158)

After taking into consideration similar fourth quarter adjustments, there will be a reclassification of \$9,924,381 from investing activities to financing cash flows for the year ended December 31, 2019.

The Company has financed its operations primarily from revenues generated from product sales and anesthesia services and through equity and debt financings and a revolving credit facility. As of September 30, 2020, the Company has raised approximately \$51 million from the sale and issuance of equity securities and, most recently, the Company entered into a syndicated debt facility with JP Morgan Chase Bank, increasing its facility to \$200 million on October 22, 2019. As at September 30, 2020, the Company owed \$75.8 million under the facility. The terms of the Company's facility as of September 30, 2020 are described below.

#### *JP Morgan Chase Facility ("JP Morgan Facility")*

On October 22, 2019, the Company entered into a three year revolving credit line which provides up to \$200 million in borrowing capacity. The JP Morgan Facility includes a committed \$125 million facility and access to an accordion feature that increases the amount of the credit available to the Company by \$75 million. Interest on the JP Morgan Facility is calculated with reference to LIBOR plus 1.25% to 1.75%, dependent on the Company's total leverage ratio. The JP Morgan Facility is secured by the assets of the Company and matures on October 22, 2022. Since the JP Morgan Facility is a syndicated facility, which includes the Bank of Nova Scotia as a lender, any remaining deferred financing fees under the previous Scotia Facility were retained and are amortized over the term of the new facility. The Company incurred deferred financing fees of \$839,893 in connection with this facility in the year ended December 31, 2019 and incurred additional deferred fees of \$125,000 in the quarter ended September 30, 2020 when it further amended its facility on September 18, 2020. This amendment, in conjunction with a previous amendment dated August 13, 2020, allows for the Company to engage in investments where less than 51% equity ownership is held and also amended the Company's Total Leverage Ratio to not greater than 3.50:1.00 until the quarter ended June 30, 2021. Should the Company's PPP loan be forgiven prior to June 30, 2021, the ratio is amended downward to 3.25:1.00. After June 2021, the Total Leverage Ratio will revert back to 3.00:1.00. The remaining unamortized fees relating to the JP Morgan Facility and the deferred financing fees under the previous Scotia facility, as of September 30, 2020 were \$850,915. Under the JP Morgan Facility, there are no quarterly or annual repayment requirements. As at September 30, 2020, the Company had drawn \$75,848,120 on the JP Morgan Facility (2019 - \$69,341,370). As at September 30, 2020, the Company is required to maintain the following financial covenants in respect of this Facility:

As at September 30, 2020, the Company is required to maintain the following financial covenants in respect of this Facility:

<b>Financial Covenant</b>	<b>Required Ratio</b>
Total leverage ratio	Not greater than 3.50:1.00
Interest coverage ratio	Not less than 3.00:1.00

The Company's Total Leverage ratio is calculated as the ratio of the Company's total indebtedness at the end of the period to EBITDA for the Company's previous four consecutive quarters.

The Company is in compliance with all covenants as at September 30, 2020.

### **Contractual Obligations and Contingent Liabilities**

The Company's near-term cash requirements relate primarily to interest payments, remaining payments under its earn-out obligations, purchases under the Company's normal course issuer bid, operations, working capital and general corporate purposes, including further acquisitions. As a result of the impact of COVID-19, the Company has updated its forecasts to account for the impact of the pandemic. Based on this assessment, the Company believes cash and cash equivalents and the availability of its revolving credit facility will be sufficient to fund the Company's operating, debt repayment and capital requirements for at least the next 12 months. The Company updates its forecasts on a regular basis and will consider additional financing sources as appropriate.

There were no significant changes in the Company's contractual commitments compared with those set forth in the Company's Annual Report Form 10-K for the year ended December 31, 2019, except as it relates to contingent consideration payable. See Note 4 to our condensed consolidated interim financial statements included in Part 1, Item 1, "Financial Statements" of this Quarterly Report on Form 10-Q.

### **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.

### **Outstanding Share Data**

As at September 30, 2020, there were 71,461,684 common shares issued and outstanding for a total of \$56,268,562 in share capital.

As at September 30, 2020, there were 979,687 options outstanding at a weighted-average exercise price of \$1.62 per share, of which 604,687 were exercisable into common shares at a weighted-average exercise price of \$0.97 per share. As at September 30, 2020, there were 3,134,375 share units ("SUs") issued and outstanding.

As at November 11, 2020, there were 71,409,684 common shares issued and outstanding, excluding shares held as treasury, for a total of \$56,228,846 in share capital.

As at November 11, 2020, there were 979,687 options outstanding at a weighted-average exercise price of \$1.65 per share, of which 604,687 were exercisable into common shares at a weighted-average exercise price of \$0.98 per share. As at November 11, 2020, there were 3,134,375 share units ("SUs") issued and outstanding.

### **JOBS Act**

In April 2012, the JOBS Act was enacted. Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended (the "**Securities Act**"), for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

**Item 4. Controls and Procedures****Evaluation of Disclosure Controls and Procedures**

As of the period covered by this Quarterly Report on Form 10-Q, our management, with the participation of our Chief Executive Officer and our Chief Financial Officer (our principal executive officer and principal financial officer, respectively), evaluated the design and operating effectiveness of our disclosure controls and procedures. The term “disclosure controls and procedures,” as defined in Rules 13a-15€ and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on our evaluation of our disclosure controls and procedures as of September 30, 2020, our Chief Executive Officer and our Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were, in design and operation, effective at the reasonable assurance level.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. As of September 30, 2020, we are not a party to any legal proceedings that, in the opinion of our management, would reasonably be expected to have a material adverse effect on our business, financial condition, operating results or cash flows if determined adversely to us. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

### Item 1A. Risk Factors

*You should carefully consider the following risk factors, in addition to the other information contained in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes. If any of the events described in the following risk factors occurs, our business, operating results and financial condition could be seriously harmed. This Quarterly Report on Form 10-Q also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of factors that are described below and elsewhere in this Quarterly Report on Form 10-Q.*

#### Risks Related to Our Company

***Our operations and financial results have been and could be further harmed by the COVID-19 pandemic.***

Our business and financial results have been and may continue to be adversely affected by the COVID-19 pandemic. As a result of the COVID-19 pandemic, patients in the United States have cancelled or deferred non-emergent procedures or otherwise avoided medical treatment, resulting in reduced patient volumes and operating revenues and income from both our Products and Anesthesia Services businesses. Our business, particularly our Anesthesia Services, depends on the adequate availability of our specialized healthcare providers. To the degree that COVID-19 affects their health, or that alternate demands for their services affects their ability to return to service our customers, our business could be adversely affected. Payment for our anesthesia services depends on an orderly and timely processing of our claims, or invoices, to healthcare insurers and patients. Any COVID-19 pandemic-related delays or disruptions in the processing of our claims caused by disruptions in operations at the insurers, or by patients' reduced ability to pay, could affect our revenues and income. Any interruption in our Product contract manufacturer's or Product distributor's ability to service our orders due to COVID-19 effects on their businesses could adversely affect our Product sales and revenue. In addition, in the event that the current COVID-19 outbreak, or any actions of governmental authorities taken in connection with COVID-19, disrupt the production or supply of pharmaceuticals and medical supplies, our business could be adversely affected. The extent to which COVID-19 may impact our business will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the geographic spread of the disease, the duration of the outbreak, public health restrictions on travel and in-person interactions in the United States and other countries, business closures or business disruptions, and the effectiveness of actions taken in the United States and other countries to contain and treat the disease. We cannot presently predict the duration, scope and severity of any potential business closures or disruptions, or the overall effects of COVID-19 on our operations.

***Changes to payment rates or methods of third-party payors, including United States government healthcare programs, changes to the United States laws and regulations that regulate payments for medical services, the failure of payment rates to increase as our costs increase, or changes to our payor mix, could adversely affect our operating margins and revenues.***

We provide anesthesia services primarily through fee for service payor arrangements. Under these arrangements, we collect fees directly through the entities at which anesthesia services are provided. We assume financial risks related to changes in third-party reimbursement rates and changes in payor mix. Our revenue decreases if our volume or reimbursement decreases, but our expenses may not decrease proportionately.

We depend primarily on U.S. government, third party commercial and private and governmental third-party sources of payment for the services provided to patients. The amount we receive for our services may be adversely affected by market and cost factors, as well as other factors over which we have no control, including changes to the Medicare and Medicaid payment systems. U.S. health reform efforts at the federal and state levels may increase the likelihood of significant changes affecting U.S. government healthcare programs and private insurance coverage. U.S. Government healthcare programs are subject to, among other things, statutory and regulatory changes, administrative rulings, interpretations and determinations concerning patient eligibility requirements, funding levels and the method of calculating payments or reimbursements, all of which could materially increase or decrease payments we receive from these government programs. Further, Medicare reimbursement rates are increasingly used by private payors as benchmarks to establish commercial reimbursement rates and any adjustment in Medicare reimbursement rates or formulas may impact our reimbursement rates from such private payors as well.

As the Medicare program transitions away from fee for service payment models and toward value-based payment methodologies, we may be required to make additional investments to receive maximum Medicare reimbursement or to avoid reduction in Medicare reimbursement. For example, in 2019, the Merit-Based Incentive Payment System which requires providers to implement and report certain quality measures, resulted in providers receiving payment adjustments of -5% to +1.7%, based on their performance with respect to clinical quality, resource use, clinical improvement activities, and meaningful use of electronic health records.

There are significant private and public sector pressures to reign in healthcare costs and to lower reimbursement rates for medical services, and we believe that such pressures will continue. Major payors of healthcare, including U.S. federal and state governments and private insurers, have taken steps in recent years to monitor and control costs, eligibility for, and use and delivery of healthcare services, and to revise payment methodologies. Further, the ability of commercial payors to control healthcare costs may be enhanced by the increasing consolidation of insurance and managed care companies, and the incursion of other private companies into the healthcare industry, all of which may reduce our ability to negotiate favorable contracts with such payors.

Furthermore, with an increase in cost-sharing strategies employed by insurers, including high-deductible plans, higher co-pays and co-insurance limits, patient balances make up an increasing share of the Company's revenue. There can be no assurance that the collection of these patient-level balances will remain at a stable or predictable rate, particularly in a declining economy. We may not be able to offset any declines in patient payments with increases in volumes, improved insurance reimbursement rates, or corresponding expense reductions, and may therefore experience adverse operating margins and declines in profitability.

We expect efforts to impose greater discounts and more stringent cost controls by government and other payors to continue, thereby either reducing the payments we receive for our services, or in some cases, outright denying coverage of our services. The effect of cost containment trends will depend, in part, on our payor mix. We may not be able to offset reduced operating margins through cost reductions, increased volumes, the introduction of additional procedures or otherwise. In addition, future changes to reimbursement rates by government healthcare programs, cost containment measures by private third-party payors or other factors affecting payments for healthcare services may adversely affect our future revenues, operating margins, and profitability.

***We are subject to decreases in our revenue and profit margin under our fee for service contracts and arrangements, where we bear the risk of changes in volume, payor mix, radiology, anesthesiology, and pathology benefits, and third-party reimbursement rates.***

In our fee for service arrangements, which represent substantially all of our revenues, we collect the fees for services. Under these arrangements, we assume financial risks related to changes in the mix of patients covered by government-sponsored healthcare programs and third-party reimbursement rates. A substantial decrease in patient volumes, or an increase in the number of patients covered by government healthcare programs, as opposed to commercial plans that have higher reimbursement levels, or any potential shift in reimbursement mix could reduce our profitability and adversely impact future revenue growth. In some cases, our revenue decreases if our volume or reimbursement decreases, but our expenses may not decrease proportionately.

We operate a large number of anesthesia entities in many different markets. Each entity has a different mix of contracted and non-contracted relationships with commercial payors. In cases where our providers are not contracted, most payors have radiology, anesthesiology, and pathology provisions that limits the amount payable by patients when a non-contracted provider is utilized. In most cases, reimbursements we receive for anesthesia services are greater when we are non-contracted than they would be if we were contracted. As our anesthesia entities mature, we may choose or be required to enter into contracts with a majority of existing commercial payors which may result in decreased revenue, but our expenses may not decrease proportionately. Payors may also change the amount reimbursed for non-contracted providers which may also result in decreased revenue, but our expenses may not decrease proportionately.

***We may or may not successfully identify and complete corporate transactions on favorable terms or achieve anticipated synergies relating to any acquisitions or alliances, and such acquisitions could result in unforeseen operating difficulties and expenditures, or require significant management resources and significant charges.***

As a part of our growth strategy, we regularly explore potential acquisitions of complementary businesses, technologies, services or products as well as potential strategic alliances. We may be unable to find suitable acquisition candidates or appropriate partners with which to form alliances. Even if we identify appropriate acquisition or alliance candidates, we may be unable to complete the acquisitions or alliances on favorable terms, if at all, as a result of changes in tax laws, healthcare regulations, financial market, or other economic or market conditions. Acquisition activities can be thwarted by overtures from competitors for the targeted candidates, government regulation and replacement product developments in our industry. Competition may intensify due to the ongoing consolidation in the healthcare industry, which may increase our acquisition costs. In addition, the process of integrating an acquired business, technology, service or product into our existing operations could result in unforeseen difficulties and expenditures. Integrating completed acquisitions into our existing operations involves numerous short-term and long-term risks, including diversion of our management's attention, failure to retain key personnel, long-term value of acquired intangible assets and acquisition expenses. In addition, we may be required to comply with laws, rules and regulations that may differ from those of the states in which our operations are currently conducted. Moreover, we may not realize the anticipated financial or other benefits of an acquisition or alliance.

Future acquisitions could also involve the issuance of equity securities, the incurrence of debt, contingent liabilities or amortization of expenses related to other intangible assets, any of which could adversely impact our financial condition or results of operations. The issuance of shares for an acquisition may result in dilution to our existing shareholders and, depending on the number of shares that we issue, the resale of such shares could affect the trading price of our common shares. In addition, equity or debt financing required for such acquisitions may not be available.

Any corporate transaction will be accompanied by certain risks including but not limited to:

- exposure to unknown liabilities of acquired companies and the unknown issues with any associated technologies or research. Such liabilities may include liabilities for failure to comply with applicable laws, or liabilities relating to medical malpractice claims. Generally, we obtain indemnification agreements from the sellers of businesses acquired with respect to pre-closing acts, omissions and other similar risks. It is possible that we may seek to enforce indemnification provisions in the future against sellers who may no longer have the financial wherewithal to satisfy their obligations to us. Accordingly, we may incur material liabilities for past activities of acquired businesses;
- certain acquired businesses may derive a greater portion of their revenue from government health programs than what we recognize on a consolidated basis, or may have business models with lower operating margins than ours, which could affect our overall payor mix or operating results in future periods;
- higher than anticipated acquisition costs and expenses;
- the difficulty and expense of integrating operations, systems, and personnel of acquired companies;
- disruption of our ongoing business;
- uncertainty that an acquired business will continue to maintain its pre-acquisition revenue and growth rates, or be profitable;
- inability to retain key customers, vendors, and other business partners of the acquired company;
- diversion of management's time and attention;
- the realization of financial and operating risks not fully anticipated; and
- potential challenges under antitrust laws, either before or after an acquisition is consummated, which could involve substantial legal costs and result in the Company having to abandon the transaction or make a divestiture.

We may not be able to successfully overcome these risks and other problems associated with acquisitions and this may adversely affect our business, financial condition or results of operations.

***Our senior management has been key to our growth, and we may be adversely affected if we lose any member of our senior management.***

The Company is dependent on its senior management. Consequently, our ability to retain these individuals and attract other qualified individuals is critical to our success. In addition, because of a relative scarcity of individuals with the high degree of education and business experience required for our business, competition among companies for qualified employees is intense and, as a result, we may not be able to attract and retain such individuals on acceptable terms, or at all. The loss of key management personnel or our inability to attract, retain, and motivate sufficient numbers of qualified management personnel could have a material adverse effect on the Company.

Incentive provisions for our key executives include the granting of equity-based compensation that vest over time or are based on performance and are designed to encourage such individuals to stay with us. However, a low share price, whether as a result of disappointing growth, revenues, income, or as a result of market conditions generally, could render such agreements of little value to our key executives. In such event, our key executives could be susceptible to being hired away by our competitors or other businesses who could offer a better compensation package. If we are unable to attract and retain key personnel, our business, financial condition, and results of operations may be adversely affected.

***ASCs or other customers may terminate or choose not to renew their agreements with us.***

Our professional service agreements with our partner ASCs currently range in duration from one year to 15 years and can be renewed if agreed upon by both parties and contain auto-renewal features. To date, with the exception of a contract in Sarasota, Florida, which was terminated as a result of an ASC closing, a contract in Gainesville, FL, which was not renewed by the facility amidst profitability concerns by the Company, and NC GAA contracts that the Company chose not to renew, all other professional service agreements have been renewed as required. Our contract with GAA-affiliated ASCs, currently our largest customer contributing 20% of our total revenue in 2019 and 20% of our total revenue in 2018, requires active renewal by November 2021.

Our customers may cancel or choose not to renew their contracts with us. Changes in economic conditions, including decreased government and commercial reimbursement, hospital acquisition of ASCs for physician practices, or changes in the state or federal regulatory environment could influence future actions of our partners or other customers. To the extent that any significant agreement or agreements with our partners or other customers are canceled, or are not renewed or replaced with other arrangements having at least as favorable terms, our business, financial condition and results of operations could be materially adversely affected.

***If we are unable to maintain or increase anesthesia procedure volumes at our existing ASCs, the operating margins and profitability of our anesthesia segment could be adversely affected.***

Part of our growth strategy for our anesthesia services segment includes increasing our revenues and earnings through increasing the number of procedures performed at the ASCs we service. Procedure volume at the ASCs we serve may be adversely impacted by economic conditions, high unemployment rates, natural disasters, physicians who no longer utilize the ASCs we serve, and other factors that may cause patients to delay or cancel procedures. There are no assurances that we will be successful at increasing or maintaining procedure volumes, revenues and operating margins at our ASCs.

***We may not be able to successfully recruit and retain qualified anesthesia service providers or other independent contractors.***

The healthcare business is highly competitive. We compete with other healthcare providers, primarily hospitals and other surgery centers in recruiting and retaining a sufficient number of anesthesiologists and anesthesiologists to perform our services operations. We compete with many types of healthcare providers including teaching, research, and government institutions and other practice groups for the services of qualified anesthesiologists.

Some of our competitors may have greater resources than we do, including financial, marketing, staff and capital resources. We may not be able to continue to recruit new anesthesiologists or renew contracts with existing contractors on acceptable terms. If we are not able to do so, our ability to provide anesthesia services and generate revenue and net income could be adversely affected.

***We may be unable to enforce the non-competition and other restrictive covenants in our agreements.***

As a material term and condition of each anesthesia medical practice acquisition, the sellers and owners enter into a restrictive covenant in favor of our purchasing entity, whereby the sellers and owners agree not compete in a specific restricted territory (the "Restrictive Covenants"). The restricted territory varies based upon the jurisdiction where the anesthesia medical practice is located. The length of the restricted period also varies based upon the jurisdiction where the anesthesia medical practice is located. If the sellers and owners, individually or collectively, breach the Restrictive Covenants, the definitive purchase agreements provide us with the remedies of injunctive relief and liquidated damages based upon a negotiated, predetermined estimate of damages. Additionally, we have negotiated additional special covenants, which vary from transaction to transaction, that provide us with the remedy of liquidated damages based upon a negotiated, predetermined estimate of damages. If a court determines that such liquidated damages are unenforceable as a penalty, as a result of such determination our business, financial condition and results of operations could be adversely affected.

The law governing non-competition agreements and other forms of restrictive covenants varies from jurisdiction to jurisdiction. Although we believe that the Restrictive Covenants applicable to our anesthesiologists, contractors, and other business partners are reasonable in scope and duration and therefore enforceable under applicable law, courts and arbitrators in some jurisdictions are reluctant to strictly enforce non-competition agreements and restrictive covenants. If we are unable to enforce the Restrictive Covenants in these agreements, our business, financial condition, results of operations and cash flows could be materially adversely affected. We cannot predict whether a court or arbitration panel would enforce these Restrictive Covenants.



*We operate in an industry that is subject to extensive federal, state, and local regulation, and changes in law and regulatory interpretations.*

The healthcare industry in the United States is subject to extensive federal, state, and local laws, rules, and regulations relating to, among other things:

- payment for services;
- corporate practice of medicine;
- conduct of operations, including fraud and abuse, anti-kickback, physician self-referral, and false claims prohibitions;
- reporting of quality measures;
- the manufacture and marketing of medical devices;
- protection of patient information; and
- medical waste disposal and environmental protection.

*Changes in the medical industry and the economy may affect the Company's business.*

The Company's business may be affected by factors beyond its control, such as an economic recession or the aggressive pricing policies of competitors. Future technological advances in the continually-changing medical industry can be expected to result in the availability of new products and services that will compete with the products and services that the Company may develop or render the Company's current product and anesthesia services obsolete. We expect that market demand, governmental regulation, government and third-party reimbursement policies and societal pressures will continue to change the worldwide healthcare industry, resulting in further business consolidations and alliances, which may exert further downward pressure on the prices of our products and services and could adversely impact our business, financial condition, and results of operations.

*Our failure to comply with U.S. federal and state fraud and abuse laws, including anti-kickback laws and other U.S. federal and state anti-referral laws, could have a material, adverse impact on our business.*

There are numerous U.S. federal and state laws pertaining to healthcare fraud and abuse, including anti-kickback laws and physician self-referral laws. Our relationships with healthcare providers and other third parties are subject to scrutiny under these laws. Violations of these laws are punishable by criminal and civil sanctions, including, in some instances, imprisonment and exclusion from participation in federal and state healthcare programs, including the Medicare, Medicaid and Veterans Administration health programs.

Healthcare fraud and abuse regulations are complex, and even minor irregularities can potentially give rise to claims that a statute or prohibition has been violated. The laws that may affect our ability to operate include, among others:

- the federal Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and willfully soliciting, receiving, offering or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual for, or the purchase, order or recommendation of, any good or service for which payment may be made under federal healthcare programs such as the Medicare and Medicaid programs
- the federal False Claims Act, which prohibits, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payors that are false or fraudulent;
- HIPAA, as amended, among other things, prohibits executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;
- federal physician self-referral law (the "**Stark Law**"), prohibits, subject to certain exceptions, physicians from making referrals of certain federal health care beneficiaries for a "designated health service" to an entity if the physician or an immediate family member has a financial relationship with the entity. Some of the services our affiliated physicians and professional groups provide include designated health services. foreign and U.S. state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers; and
- foreign and U.S. state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers.

To enforce compliance with the federal laws, the U.S. Department of Justice (the “DOJ”) has recently increased its scrutiny of interactions between healthcare companies and healthcare providers, which has led to a number of investigations, prosecutions, convictions and settlements in the healthcare industry. Dealing with investigations can be time- and resource-consuming and can divert management’s attention from our core business. Additionally, if we settle an investigation with the DOJ or other law enforcement agencies, we may be forced to agree to additional onerous compliance and reporting requirements as part of a consent decree or corporate integrity agreement. Any such investigation or settlement could increase our costs or otherwise have an adverse effect on our business.

The scope and enforcement of these laws is uncertain and subject to rapid change in the current environment of healthcare reform, especially in light of the lack of applicable precedent and regulations. Federal or state regulatory authorities might challenge our current or future activities under these laws. Any of these challenges could have a material adverse effect on our reputation, business, financial condition and operating results. Any state or federal regulatory review of us, regardless of the outcome, would be costly and time-consuming. Additionally, we cannot predict the impact of any changes in these laws, whether or not retroactive.

***A significant number of our affiliated physicians could leave our affiliated ASCs.***

Our affiliated physicians may leave our affiliated ASCs for a variety of reasons, including retirement, death and to provide services for other types of healthcare providers, such as teaching, research and government institutions, hospitals and health systems and other practice groups. If a substantial number of our affiliated physicians leave our affiliated ASCs, our business, financial condition, results of operations and cash flows could be materially adversely affected.

***Our industry is already competitive and could become more competitive.***

The healthcare industry is highly competitive and subject to continual changes in the methods by which services are provided and the manner in which healthcare providers are selected and compensated.

Because some of our operations consist primarily of anesthesia services provided within ASCs, we compete with other healthcare services companies and physician groups for contracts with ASCs to provide our services to patients. Our anesthesia services are provided under exclusive professional service agreements of varying duration which we may need to renew, renegotiate or replace. Our ability to renew, renegotiate or replace significant agreements will be critical to our success. We also face competition from hospitals to provide our services.

Companies in other healthcare industry segments, some of which have greater financial and other resources than ours, may become competitors in providing gastroenterology services or anesthesia care. Additionally we face competition from healthcare-focused and other private equity groups that are active in acquiring and consolidating physician practices, including related ancillary services, such as GI anesthesia. We may not be able to continue to compete effectively in this industry and additional competitors may enter metropolitan areas where we operate. This increased competition may have a material adverse effect on our business, financial condition, results of operations and cash flows.

***Unfavorable economic conditions could have an adverse effect on our business.***

Global economic conditions continue to be unpredictable and may result in slow economic growth and impact the number of unemployed and under-employed workers. We could experience additional shifts in the nature of patient reimbursement if economic conditions change. This may result in lower patient volumes.

Unfavorable economic conditions could also lead to additional increases in the number of unemployed and under-employed workers and decline in the number of private employers that offer healthcare insurance coverage to their employees. Employers that do offer healthcare coverage may increase the required contributions from employees to pay for their coverage and increase patient responsibility amounts. As a consequence the number of patients who participate in government-sponsored programs or are uninsured could increase. Payments received from government sponsored programs are substantially less than payments received from commercial and other third-party payors. A payor mix shift from commercial and other third-party payors to government payors may result in a decrease in our net revenue per patient case.

***The Company may not be successful in marketing its products and services.***

In order to sustain and increase revenues, the Company's products and services must achieve a significant degree of market acceptance. If the Company is unable to promote, market and sell its products and services or secure relationships with physicians and ambulatory surgery centers, the Company's business, financial condition and results of operations would be materially adversely affected.

Levels of market acceptance for our products and services could be impacted by several factors, many of which are not within our control, including but not limited to:

- safety, efficacy, convenience and cost-effectiveness of our products and services;
- scope of approved uses and marketing approval;
- difficulty in, or excessive costs to, manufacturing;
- infringement or alleged infringement of the patents or intellectual property rights of others;
- maintenance of business arrangements with healthcare providers;
- availability of alternative products or services from our competitors; and
- acceptance of the price of our products and services.

If our competitors are able to develop and market products that are preferred over the CRH O'Regan System, are able to grow service businesses that are preferred over CRH's anesthesia services or other businesses preferred over other products and services that we may develop, we may not be able to generate sufficient revenues to continue our operations.

We may not be able to contend successfully with competitors. The medical industry is highly competitive and subject to significant and rapid technological change as researchers learn more about diseases and develop new technologies, services and treatments. Certain of our competitors, either alone or together with their collaborators, have substantially greater resources than we do. The existence of other products, services or treatments of which we are not aware, or products, services or treatments that may be developed in the future, may reduce the marketability of the CRH O'Regan System, CRH's anesthesia services, and any future operations, particularly to the extent such products or services:

- are more effective;
- have fewer or less severe adverse side effects;
- have better patient compliance;
- receive better reimbursement terms;
- are accepted by more physicians;
- have better distribution channels;
- are easier to administer; or
- are less expensive.

***Failure to manage third-party service providers may adversely affect our ability to maintain the quality of service that we provide.***

We outsource a majority of our revenue cycle management functions to a third-party service provider. If our outsourcing partner fails to perform their obligations in a timely manner or at satisfactory quality levels, or if they are unable to attract or retain sufficient personnel with the necessary skill sets to meet our needs, the quality of our services and operations could suffer. In addition, our reliance on a workforce of others exposes us to disruptions in their business. Our ability to manage any difficulties encountered could be largely outside of our control. Diminished service quality from outsourcing or our inability to utilize service providers could have a material adverse effect on our business, financial condition, results of operations, cash flows and the trading price of our securities.

***Congress or states may enact laws restricting the amount out-of-network providers of services can charge and recover for such services.***

In 2019, Congress debated different measures intended to protect patients from “surprise” medical bills when services are furnished by providers who are not subject to contractual arrangements and payment limitations with the patient’s insurer. In addition, several states have enacted or are considering similar changes. For example, Florida and Texas have adopted their own balance billing laws that, in certain cases, prohibit out-of-network providers from billing patients in excess of in-network rates. These measures, if enacted, could limit the amount we can charge and recover for services we furnish where we have not contracted with the patient’s insurer, and therefore could have a material adverse effect on our business, financial condition, results of operations, cash flows and the trading price of our securities. Moreover, these measures could affect our ability to contract with certain payors and under historically similar terms and may cause, and the prospect of these changes may have caused, payors to terminate their contracts with us and our affiliated practices, further affecting our business, financial condition, results of operations, cash flows and the trading price of our securities.

***Adverse events related to our product or our services may subject us to risks associated with product liability, medical malpractice or other legal claims, insurance claims, product recalls and other liabilities, which may adversely affect our operations.***

There is an inherent risk in rubber band ligation of hemorrhoids and in the use of anesthesia services of the occurrence of an adverse event. One example of such an event is that in rare cases rubber band ligation of hemorrhoids can lead to sepsis, which if left untreated, can result in serious medical consequences, including death. Examples of adverse events related to anesthesia include anaphylaxis, nerve damage and embolism, which can result in serious medical consequences and in rare circumstances, can lead to death. Such adverse events could have material adverse consequences on our sales, business, operations and financial performance.

The occurrence of unanticipated serious adverse events or other safety problems could cause the governing agencies to impose significant restrictions on the indicated uses for which our product and services may be marketed, the distribution or sale of the product, or the provision of our services. In addition, post-market discovery of previously unknown safety problems or increased severity or significance of a pre-existing safety signal could result in withdrawal of the product from the market, product recalls or other material adverse effects on our operations. It is our obligation to file reports with the FDA related to certain adverse health events or device malfunctions associated with our medical devices, and failure to do so could itself result in government action, including a Warning Letter, civil monetary penalty, product recall, in rem forfeiture proceeding, judicial injunction, or criminal prosecution.

We may be held liable or incur costs to settle liability claims if our product, services or contracted anesthesiologists cause injury. Although we currently maintain product liability and medical malpractice insurance, we cannot assure you that this insurance is adequate, and, at any time, it is possible that such insurance coverage may cease to be available on commercially reasonable terms, or at all. A product liability or medical malpractice claim, or a claim based in related legal theories of negligence or vicarious liability among others, could result in liability to us greater than our total assets or insurance coverage. Moreover, product liability, medical malpractice or other claims could have an adverse impact on our business even if we have adequate insurance coverage.

Our product and services may also fail to meet patient expectations or produce harmful side effects. Such unexpected quality, safety or efficacy issues may be caused by a number of factors, including manufacturing defects, failure to adhere to good clinical practices, failure to adhere to good manufacturing practices, non-compliance with clinical protocols or the presence of other inadequacies of product-related information conveyed to physicians or patients, or other factors or circumstances unique to the patient. Whether or not scientifically justified, such unexpected safety or efficacy concerns can arise and may lead to product recalls, loss of or delays in market acceptance, market withdrawals, or declining sales, as well as liability, consumer fraud and/or other claims.

It is impossible to predict the scope of injury or liability from such defects, adverse events or unexpected reactions, the impact on the market for such products and services of any allegations of these claims, even if unsupported, the measure of damages which might be imposed as a result of any claims, or the cost of defending such claims. Substantial damages, awards and/or settlements have been handed down, notably in the United States and other common law jurisdictions, against medical companies in connection with claims for injuries allegedly caused by the use of their products and services. Although our shareholders would not have personal liability for such damages, the expenses of litigation or settlements, or both, in connection with any such injuries or alleged injuries and the amount of any award imposed on us in excess of existing insurance coverage, if any, may have a material adverse impact on us and on the price of our common shares. In addition, we may not be able to avoid significant liability exposure even if we take appropriate precautions, including maintaining liability coverage (subject to deductibles and maximum payouts). Any liability that we may have as a result could have a material adverse effect on our business, financial condition and results of operations. Liability claims in the future, regardless of their ultimate outcome, could have a material adverse effect on our reputation and on our ability to attract and retain customers.

***Our dependence on suppliers could have a material adverse effect on our business, financial condition and results of operations.***

The Company is economically dependent on one critical supplier for the CRH O'Regan System. The supplier, a clean room injection molding manufacturing company based in Ontario, Canada, performs contract manufacturing and assembly for the Company. Currently, the Company has one set of manufacturing molds for each product produced which is used for the injection molding, and these molds are inventoried at the supplier's facility.

Manufacturing operations are subject to numerous unanticipated technological problems and delays. Our manufacturers are, and will be, subject to regulations specified by the various regulatory bodies such as Health Canada and the FDA. There can be no assurance that we will be able to comply with all stated manufacturing regulations. Failure or delay by our manufacturers to comply with such regulations or to satisfy regulatory inspections could have an adverse effect on the Company's business and operations.

The Company's anesthesia services are dependent on utilizing a continual supply of Propofol. CRH currently sources Propofol through supply agreements with narcotics manufacturers and its physicians and medical practitioners. A breach of any of these agreements, or a deterioration of the relationships with the parties thereto, could result in an interruption of the Company's Propofol supply. Any interruption in the Company's Propofol supply could have a material adverse effect on the Company's anesthesia business and operations.

As the Company is dependent on a minimal number of suppliers for all manufacturing services and procurement of Propofol, any interruption caused by a business shutdown by the supplier (e.g., bankruptcy, fire or labor dispute) could be challenging for the Company. Although the Company mitigates these risks by maintaining open relationships with other suppliers that could perform similar services, maintaining an appropriate level of inventory, and performing quality and business audits of its suppliers on a regular basis, we cannot guarantee that we will be able to enter into new supply contracts, advantageous to us or at all, in the event of a shutdown. Any such shutdown may have a material adverse effect on our business, financial condition or results of operations.

***We may need to raise additional capital to fund future operations.***

The Company became profitable in the first quarter of 2011, which was consistent with the Company's new business development strategy introduced in the fourth quarter of 2010 to focus exclusively on selling its CRH O'Regan System directly to physicians. With the GAA acquisition in the fourth quarter of 2014, the Company altered its business strategy further to provide anesthesia services in addition to its existing medical product.

Based on our current cash resources, estimated capital requirements and anticipated revenues, we expect that we can maintain current operations. There can be no assurance that unforeseen developments or circumstances will not alter our requirements for capital. Any additional equity financing would be dilutive to our shareholders. If access to sufficient capital is not available as and when needed, our business may be impaired.

Advancing our product and current business operations, market expansion of our currently marketed product or growth of our anesthesia services, service of our debt, or acquisition and development of any new products, businesses or operations will require considerable resources and additional access to capital markets. In addition, our future cash requirements may vary materially from those now expected. For example, our future capital requirements may increase if:

- we experience more competition from other companies or in more markets than anticipated;
- we experience delays or unexpected increases in costs in connection with maintaining regulatory approvals for our product or services in the various markets where we sell our product and provide our services;
- we experience unexpected or increased costs relating to preparing, filing, prosecuting, maintaining, defending and enforcing patent claims, or other lawsuits, brought by either us or our competition;
- we elect to raise additional capital in order to service or repay all or a portion of our outstanding debt;
- we elect to develop, acquire or license new technologies, products or businesses; or
- we are presented with suitable opportunities and elect to accelerate the pace of our continued growth strategy.

We could potentially seek additional funding through public or private equity or debt financing, corporate collaborations or through other transactions. However, if revenues are slow to increase or if industry and capital market conditions in general are unfavorable, our ability to obtain significant additional funding on acceptable terms, if at all, will be negatively affected. Additional financing that we may pursue may involve the sale of our common shares or financial instruments that are exchangeable for, or convertible into, our common shares, which could result in significant dilution to our shareholders.

If sufficient capital is not available, we may be required to delay or alter our current operations or our business expansion, either of which could have a material adverse effect on our business, financial condition, prospects or results of operations.

***We are subject to various restrictive covenants and events of default under the Credit Facilities.***

Under the Company's credit facilities with JP Morgan, syndicated with others (the "Credit Facilities"), the Company has made various restrictive covenants to the lenders, including payment of interest and principal when due. The Credit Facilities are available for review on SEDAR at [www.sedar.com](http://www.sedar.com) and on the SEC's website at [www.sec.gov](http://www.sec.gov).

If there is an event of default under either of these agreements, the principal amount owing under the Credit Facilities, plus accrued and unpaid interest, may be declared immediately due and payable. If such an event occurs, it could have a material negative impact on the Company financially. Any extended default under the Credit Facilities, could result in the loss of the Company's entire business.

In addition, the Credit Facilities include various conditions and covenants that require CRH to obtain consents prior to carrying out certain activities and entering into certain transactions, such as incurring additional debt, repurchasing common shares of the Company, creating additional charges on the Company's assets, and providing additional guarantees or disposing of certain assets. As a result of the restrictive covenants or other terms of any existing or new loan or other financing agreements, the Company may be significantly restricted in its ability to raise additional capital through bank borrowings and to engage in some transactions that CRH expects to be of benefit to the Company. The inability to meet these conditions and covenants or obtain lenders' consent to carry out restricted activities could materially and adversely affect the business and results of operations of CRH.

We are exposed to market risk related to changes in interest rates. Our earnings are affected by changes in short-term interest rates as a result of borrowings under the Credit Facilities. As a result, if interest rates rise, our cost of borrowing will increase, negatively impacting our earnings.

***The Affordable Care Act ("ACA") and potential changes to it may have a significant effect on our business.***

The ACA contains a number of provisions that have affected us and may continue to affect us over the next several years. These provisions include the establishment of health insurance exchanges to facilitate the purchase of qualified health plans, expanded Medicaid eligibility, subsidized insurance premiums and additional requirements and incentives for businesses to provide healthcare benefits. Moreover, we could be affected by potential changes to various aspects of the ACA, including subsidies, healthcare insurance marketplaces and Medicaid expansion.

The ACA remains subject to continuing legislative and administrative flux and uncertainty. In 2017, Congress unsuccessfully sought to replace substantial parts of the ACA with different mechanisms for facilitating insurance coverage in the commercial and Medicaid markets. Congress may again attempt to enact material changes to the ACA in the future. Additionally, CMS has administratively revised a number of provisions and may seek to advance additional significant changes through regulation, guidance and enforcement in the future. At the end of 2017, Congress repealed the part of the ACA that required most individuals to purchase and maintain health insurance or face a tax penalty, known as the individual mandate. In light of these changes, in December 2018, a federal district court in Texas declared that key portions of the ACA were inconsistent with the United States Constitution and that the entire ACA is invalid as a result. Several states appealed this decision, and in December 2019, a federal Court of Appeals upheld the district court's conclusion that part of the ACA is unconstitutional, but remanded for further evaluation whether in light of this defect the entire ACA must be invalidated. These legal proceedings are likely to continue for several years, and the fate of the ACA will be unresolved and uncertain during this period. Actions by the Court of Appeals or eventually the Supreme Court of the United States could invalidate portions or all of the ACA. Changes resulting from these proceedings could have a material impact on our business. In the meantime, it also is possible that as a result of these actions, enrollment in healthcare exchanges could decline.

In 2020, there will be federal and state elections that could affect which persons and parties occupy the Office of the President of the United States, control one or both chambers of Congress and many states' governors and legislatures. Any legislative or administrative change to the current healthcare financing system could have a material adverse effect on our financial condition, results of operations, cash flows and the trading price of our securities.

If the ACA is repealed or further substantially modified, or if implementation of certain aspects of the ACA are diluted or delayed, such repeal, modification or delay may impact our business, financial condition, results of operations, cash flows and the trading price of our securities. We are unable to predict the impact of any repeal, modification or delay in the implementation of the ACA, including the repeal of the individual mandate, on us at this time.

***The Medicare Access and CHIP Reauthorization Act of 2015 (“MACRA”) and potential changes to it may have a significant effect on our business.***

MACRA contains numerous measures that could affect us, including, requirements that providers participate in the Quality Payment Program (“QPP”) that adjusts payments to providers under Medicare based on quality and cost of care, rather than solely on the quantity of procedures performed. MACRA requires providers to choose to participate in one of two payment formulas, MIPS or Alternative Payment Models (“APMs”). MIPS allows eligible providers to receive incentive payments based on the achievement of certain quality and cost metrics, among other measures, and be penalized for underperforming against those same metrics and measures. As an alternative, providers can choose to participate in an Advanced APMs, and providers who are meaningful participants in APMs will receive bonus payments from Medicare pursuant to the law. MACRA also remains subject to review and potential modification by Congress, as well as shifting regulatory requirements established by CMS. We currently anticipate that our affiliated providers will be eligible to receive bonus payments in 2020 through participation in the MIPS, although the amounts of such bonus payments are not expected to be material. We will continue to operationalize the provisions of MACRA and assess any further changes to the law or additional regulations enacted pursuant to the law.

We cannot ultimately predict with any assurance the ultimate effect of these laws and resulting changes to payments under GHC Programs, nor can we provide any assurance that they will not have a material adverse effect on our business, financial condition, results of operations, cash flows and the trading price of our securities. Further, any fiscal tightening impacting GHC Programs or changes to the structure of any GHC Programs could have a material adverse effect on our financial condition, results of operations, cash flows and the trading price of our securities.

***Government authorities or other parties may assert that our business practices violate antitrust laws.***

The healthcare industry is subject to close antitrust scrutiny. In recent years, U.S. regulatory authorities have taken increasing steps to review and, in some cases, take enforcement action against business conduct and acquisitions in the healthcare industry. Violations of antitrust laws may be punishable by substantial penalties including significant monetary fines, civil penalties, criminal sanctions, and consent decrees and injunctions prohibiting certain activities or requiring divestiture or discontinuance of business operations. Any of these penalties could have material adverse effects on our business’ financial condition and results of operations.

***If regulations or regulatory interpretations change, we may be obligated to re-negotiate agreements of our anesthesiologists, anesthesiologists or other contractors.***

Due to regulations prohibiting the corporate practice of medicine, the shares of GAA, CRH GAA PLLC, W GAA and NC GAA, PC are owned by an individual medical practitioner. GAA, CRH GAA PLLC, W GAA and NC GAA, PC operations and corporate structures are governed by certain agreements, including a loan by CRH Medical Corporation to the individual medical practitioner. These agreements, including the affirmative and negative covenants therein in favor of CRH, effectively provide CRH control of GAA, CRH GAA PLLC, W GAA and NC GAA, PC. If certain regulations or regulatory interpretations change, particularly in relation to the medical practice and physician ownership, we will be obligated to adapt or re-negotiate our operating agreements to comply with such regulations. The cost of adapting or re-negotiating these agreements could be substantial. There can be no assurance, however, that our existing capital resources would be sufficient for us to meet any future obligations to adapt or re-negotiate our operating agreements, if they arise.

The re-negotiating of these agreements could have a material adverse effect on our financial condition and results of operations. While we believe physician ownership and our operating strategy is in compliance with applicable law, we can give no assurances that legislative or regulatory changes would not have an adverse impact on us. From time to time, these issues are considered by some state legislatures and federal and state regulatory agencies.

***Despite current indebtedness levels, we may still be able to incur substantially more debt, which could further exacerbate the risks associated with increased leverage.***

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. Although our Credit Facilities contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. If we incur additional debt above the levels currently in effect, the risks associated with our leverage, including those described above, would increase.

***Failure to timely or accurately bill for services could have a negative impact on our net revenue, bad debt expense and cash flow.***

Billing for healthcare services is an important and complex aspect of our business. We bill numerous and varied payors, such as managed care payors and Medicare Medicaid, and self-pay patients. These different payors typically have different billing requirements that must be satisfied prior to receiving payment for services rendered. Reimbursement is typically conditioned on our documenting medical necessity, the appropriate level of service and correctly applying diagnosis codes. Incorrect or incomplete documentation and billing information could result in non-payment for services rendered.

Additional factors that could complicate our ability to timely or accurately bill payors include:

- disputes between payors as to which party is responsible for payment;
- failure of information systems and processes to submit and collect claims in a timely manner;
- variation in coverage for similar services among various payors;
- our reliance on third-parties to provide billing services;
- the difficulty of adherence to specific compliance requirements, diagnosis coding and other procedures mandated by various payors;
- failure to obtain proper provider credentialing and documentation in order to bill various payors; and
- failure to collect patient balances due to economic conditions or other unknown reasons.

To the extent that the complexity associated with billing for healthcare services we provide causes delays in our cash collections, we may experience increased carrying costs associated with the aging of our accounts receivable, as well as increased potential for bad debt expense.

***If we or some of our suppliers fail to comply with the FDA's Quality System Regulation and other applicable requirements, our manufacturing or processing operations could be disrupted, our sales and profitability could suffer, and we may become subject to a wide variety of FDA enforcement actions.***

We are subject to inspection and marketing surveillance by the FDA to determine our compliance with all regulatory requirements. If the FDA finds that we have failed to comply with any regulatory requirements, it can institute a wide variety of enforcement actions.

We and some of our suppliers must comply with the FDA's Quality System Regulation, which governs the methods used in, and the facilities and controls used for, the design, testing, manufacture, control, quality assurance, installation, servicing, labeling, packaging, storage, and shipping of medical devices. The FDA enforces its regulations through pre-announced and unannounced inspections. We have been, and anticipate in the future being, subject to such inspections by the FDA and other regulatory bodies. The timing and scope of future audits is unknown and it is possible, despite our belief that our quality systems and the operation of our manufacturing facilities will remain in compliance with U.S. and non-U.S. regulatory requirements, that a future audit may result in one or more unsatisfactory results. If we or one of our suppliers fails an inspection, or if a corrective action plan adopted by us or one of our suppliers is not sufficient, the FDA may bring an enforcement action against us, which could result in significant financial penalties, the recall of our products or the suspension or permanent enjoinder of some or all our operations.

We are also subject to the FDA's general prohibition against promoting our products for unapproved or off-label uses and to the medical device reporting regulations that require us to report to the FDA if our products may have caused or contributed to a death or serious injury, or if our device malfunctions and a recurrence of the malfunction would likely result in a death or serious injury. We must also file reports with the FDA of some device corrections and removals, and we must adhere to the FDA's rules on labeling and promotion. If we fail to comply with these or other FDA requirements or fail to take adequate corrective action in response to any significant compliance issue raised by the FDA, the FDA can take significant enforcement actions, which could harm our business, results of operations, and our reputation.



***If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, shareholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of our common shares.***

Effective internal control over financial reporting is necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, is designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. In addition, any testing by us conducted in connection with Section 404(a) of the Sarbanes-Oxley Act may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses or that may require prospective or retroactive changes to our financial statements or identify other areas for further attention or improvement.

We are required to disclose changes made to our internal control procedures on a quarterly basis and our management is required to assess the effectiveness of these controls annually. As of December 31, 2020, we will no longer qualify as an emerging growth company. As a result, our independent registered public accounting firm will be required to issue an attestation report on the effectiveness of our internal control over financial reporting, pursuant to Section 404(b). Going forward, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may conclude that there are material weaknesses or significant deficiencies with respect to our internal controls or the level at which our internal controls are documented, designed, implemented or reviewed. Undetected material weaknesses in our internal controls could lead to financial statement restatements and require us to incur the expense of remediation. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common shares.

***Our industry is the subject of numerous governmental investigations into marketing and other business practices which could result in the commencement of civil and/or criminal proceedings, substantial fines, penalties, and/or administrative remedies, divert the attention of our management, and have an adverse effect on our financial condition and results of operations.***

Our industry is the subject of numerous governmental investigations into marketing and other business practices. This has included increased regulation, enforcement, inspections, and governmental investigations of the medical device industry and disclosure of financial relationships with healthcare professionals. These investigations could result in the commencement of civil and/or criminal proceedings, substantial fines, penalties, and/or administrative remedies, divert the attention of our management, and have an adverse effect on our financial condition and results of operations. We anticipate that the government will continue to scrutinize our industry closely, and that additional regulation by governmental authorities, both foreign and domestic, may increase compliance costs, exposure to litigation and other adverse effects to our operations.

***We may write-off intangible assets.***

The carrying value of our intangible assets is subject to periodic impairment testing. Under current accounting standards, intangible assets are tested for impairment on a recurring basis and we may be subject to impairment losses as circumstances change after an acquisition. If we record an impairment loss related to our intangible assets, which results from the anesthesia contracts that we acquire or other significant intangible assets, it could have a material adverse effect on our business, financial condition, results of operations, cash flows and the trading price of our securities.

***If we are unable to manage growth, we may be unable to achieve our expansion strategy.***

The success of our business strategy depends in part on our ability to expand our operations in the future. Our growth has placed, and will continue to place, increased demands on our management, operational and financial information systems, and other resources. Further expansion of our operations may require substantial financial resources and management attention.

To accommodate our past and anticipated future growth, and to compete effectively, we will need to continue to improve our management, to implement our operational and financial information systems, and to expand, train, manage, and motivate our workforce. Our personnel, systems, procedures, or controls may not be adequate to support our operations in the future. Further, focusing our financial resources and diverting management's attention to the expansion of our operations may negatively impact our financial results. Any failure to improve our management, to implement our operational and financial information systems, or to expand, train, manage, or motivate our workforce may reduce or prevent our growth.

***The continuing development of our products and provision of our services depends upon us maintaining strong relationships with physicians.***

The marketing and sales of our products and services is dependent upon our maintaining working relationships with physicians. If we are unable to maintain our strong relationships with these professionals, the development and marketing of our products and services could suffer, which could have a material adverse effect on our consolidated earnings, financial condition, and/or cash flows.

***Significant shareholders of the Company could influence our business operations, and sales of our shares by such significant shareholders could influence our share price.***

The exercise of voting rights associated with shares held by any significant shareholder of the Company at meetings of shareholders may have significant influences on our business, and operations. If such a shareholder holds those shares for the purpose of investment, and if it were to sell those shares in the market in the future, it could have significant influences on our share price, depending on the market environment at the time of such sale.

***We have a legal responsibility to the minority owners of the entities through which we own our anesthesia services business, which may conflict with our interests and prevent us from acting solely in our own best interests.***

As the owner of majority interests in the limited partnerships and limited liability companies that own our anesthesia service businesses, we owe a fiduciary duty to the non-controlling interest holders in these entities and may encounter conflicts between our interests and those of the minority holders. In these cases, our representatives on the governing board of each partnership or joint venture are obligated to exercise reasonable, good faith judgment to resolve the conflicts and may not be free to act solely in our own best interests. In our role as manager of the limited partnership or limited liability companies, we generally exercise our discretion in managing the business of our anesthesia practices. Disputes may arise between us and our physician partners regarding a particular business decision, or the interpretation of the provisions of the limited partnership agreement or limited liability company operating agreement. These agreements provide for arbitration as a dispute resolution process in some circumstances. There is no assurance that any possible dispute will be resolved amicably, or that any dispute resolution will be on terms satisfactory to us.

***Our common shares may be subject to significant price and volume fluctuations.***

The Company's common shares trade on the Toronto Stock Exchange ("TSX") and on the NYSE American. Public markets, from time to time, experience significant price and volume fluctuations unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of the common shares of the Company. In addition, the market price of the common shares is likely to be highly volatile. Moreover, it is likely that during future quarterly periods, the Company's results and operations may fluctuate significantly or may fail to meet the expectations of stock market analysts and investors and, in such event, the market price of the common shares could be materially adversely affected. In the past, securities class action litigation or shareholder activism has often been initiated following periods of volatility in the market price of a company's securities. Such litigation or shareholder activism, if brought against the Company, could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect on the Company's business, financial condition and results of operations.

***Unfavorable changes or conditions could occur in the states where our operations are concentrated.***

A majority of our anesthesia services revenue is generated by our operations in 11 states. In particular, Georgia, North Carolina, Massachusetts, Colorado and Texas accounts for over half of our anesthesia revenue. Adverse changes or conditions affecting these particular states, such as healthcare reforms, changes in laws and regulations, reduced reimbursements and government investigations, economic conditions, extreme weather conditions, and natural disasters may have a material adverse effect on our business, financial condition, results of operations, cash flows, and the trading price of our securities.

***We may be subject to a variety of regulatory investigations, claims, lawsuits, and other proceedings.***

Due to the nature of the Company's business, including without limitation the Company's public listing, operations in the medical industry, product and anesthesia services, the Company may be subject to a variety of regulatory investigations, claims, lawsuits and other proceedings in the ordinary course of its business. The results of these legal proceedings cannot be predicted with certainty due to the uncertainty inherent in litigation, including the effects of discovery of new evidence or advancement of new legal theories, the difficulty of predicting decisions of judges and juries and the possibility that decisions may be reversed on appeal. There can be no assurances that these matters will not have a material adverse effect on our business.

***Our anesthesia employees and third-party contractors may not appropriately record or document services that they provide.***

Our anesthesia employees are responsible for appropriately recording and documenting the services they provide. We use this information to seek reimbursement for their services from third-party payors. In addition, we utilize third-party contractors to perform certain revenue cycle management functions for medical providers and payors, including medical coding and data reporting. If our employees and third-party contractors do not appropriately document, or where applicable, code for their services or our customers' services, we could be subjected to administrative, regulatory, civil, or criminal investigations or sanctions and our business, financial condition, results of operations and cash flows could be materially adversely affected.

***If we are unable to adequately protect or enforce our intellectual property, our competitive position could be impaired.***

Our commercial success and competitive position with the CRH O'Regan System are dependent in part upon our proprietary intellectual property, including our ability to:

- obtain patents and maintain their validity;
- protect our trade secrets; and
- effectively enforce our proprietary rights or patents against infringers.

Patent applications may not result in patents being issued. Until a patent is issued, the claims covered by the patent may be narrowed or removed entirely and therefore we may not obtain adequate patent protection. As a result, we may face unanticipated competition, or conclude that, without patent rights, the risk of bringing products to the market is too great. Any patents that we own may be challenged, invalidated or circumvented and may not provide us with protection against competitors. We may be forced to engage in costly and time-consuming litigation in order to protect our intellectual property rights. Patent rights may not provide us with adequate proprietary protection or competitive advantages against competitors with similar products or technologies. Patent rights are limited in time and have expiration dates. The laws of certain foreign countries do not protect our intellectual property rights to the same extent as do U.S. laws, and the scope of our patent claims also may vary between countries, as individual countries have distinctive patent laws.

In addition to patents, we rely on trade secrets and proprietary know-how. We seek protection, in part, through confidentiality and non-disclosure agreements. These agreements may not provide meaningful protection of our technology and operations model or adequate remedies in the event of unauthorized use or disclosure of confidential and proprietary information and, in any event, others may develop independently, or obtain access to, the same or similar information. Our failure or inability to protect our trade secrets and proprietary know-how could impair our competitive position.

We may spend significant resources to enforce our intellectual property rights and such enforcement could result in litigation. Intellectual property litigation is complex and can be expensive and time-consuming, and our efforts in this regard may not be successful. We also may not be able to detect infringement. In addition, competitors may design around our technology or develop competing technologies. Patent litigation can result in substantial cost and diversion of effort. Intellectual property protection may also be unavailable or limited in some foreign countries, enabling our competitors to capture increased market position. Patents issued to or licensed by us in the past or in the future may be challenged and held invalid. The invalidation of key intellectual property rights or an unsuccessful outcome in lawsuits filed to protect our intellectual property could have a material adverse effect on our financial condition, results of operations or prospects.

The success of our business depends in part on our ability to obtain and maintain intellectual property protection for our technology and know-how and operate without infringing the intellectual property rights of others. It is possible that as a result of future litigation our products currently marketed may be found to infringe or otherwise violate third party intellectual property rights.

***If there is a change in federal or state laws, rules, regulations, or in interpretations of such federal or state laws, rules or regulations, we may be required to redeem our physician partners' ownership interests in anesthesia companies under the savings clause in our joint venture operating agreements.***

The operating agreements with our physician partners contain a savings clause that is triggered upon an adverse governmental action, including a change in federal or state laws, rules or regulations or an interpretation of such federal or state laws, rules or regulations (each an "**Adverse Governmental Action**"). Upon the occurrence of an Adverse Governmental Action the savings clause will require divestiture of the physicians' ownership in the anesthesia company and we would be required to redeem the physicians' ownership interest. If an Adverse Governmental Action occurs under a particular state's law, we would be required to redeem the ownership interests of each physician partner in such state. If an Adverse Governmental Action occurs under federal law, we would be required to redeem the ownership interest of each physician partner in the United States. The redemption price of each anesthesia company is based upon a predetermined multiple of such anesthesia company's EBITDA, which reflects the fair market value of the redeemed interests. This could impact our cash flow during the redemption period. The redemption occurs over a period of four or five years depending on each applicable operating agreement.

***Our employees and business partners may not appropriately secure and protect confidential information in their possession.***

Each of our employees and business partners is responsible for the security of the information in our systems and to ensure that private and financial information is kept confidential. Should an employee or business partner not follow appropriate security measures, including those related to cyber threats or attacks, such non-compliance may result in the release of private or confidential financial information. The release of such information could have material adverse effect on our business, financial condition, results of operations and cash flows.

***Failure to protect our information technology infrastructure against cyber-based attacks, network security breaches, service interruptions or data corruption or similar failures by our partners and third-party service providers could significantly disrupt our operations and adversely affect our business and operating results.***

We and certain of our third-party service providers rely extensively on information technology systems and telephone networks and systems, including the Internet and various cloud platforms, to process and transmit sensitive electronic information and to manage or support a variety of business processes and activities, including sales, billing, customer service, procurement and supply chain, manufacturing, and distribution. We use enterprise information technology systems to record, process, and summarize financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal, and tax requirements. Our information technology systems, some of which are managed by third-parties, may be susceptible to damage, disruptions or shutdowns due to computer viruses, attacks by computer hackers, failures during the process of upgrading or replacing software, databases or components thereof, power outages, hardware failures, telecommunication failures, user errors or catastrophic events. Despite the precautionary measures we, our partners, and our third-party service providers have taken to protect and prevent breakdowns in our information technology and telephone systems, if our systems or our service providers' systems suffer severe damage, cyber-attacks, security breaches, disruptions or shutdowns that are unable to be effectively resolved in a timely manner, our business and operating results may suffer.

For example, in October 2020 we were notified of a ransomware attack that compromised the servers of the third-party service provider we rely on to support billing activities for our Anesthesia business. Upon its detection of the security incident, the service provider took remedial steps to restore its network and resume operations, and retained a forensic cybersecurity firm to conduct an investigation of the security incident. The security incident resulted in a minor delay in the processing of billing and other financial information related to our Anesthesia business. The investigation relating to the security incident has not been completed and although to date there are no known unauthorized disclosures of patient health information related to the incident, to the extent any such unauthorized disclosures are discovered, they may have an adverse impact on our business and we may be required to notify any affected individuals pursuant to HIPAA.

In addition, we accept payments for many of our sales through credit and debit card transactions, which are handled through a third-party payment processor. As a result, we are subject to a number of risks related to credit and debit card payments, including that we pay interchange and other fees, which may increase over time and could require us to either increase the prices we charge for our products or experience an increase in our costs and expenses. In addition, as part of the payment processing process, we transmit our patients' and clinicians' credit and debit card information to our third-party payment processor. We may in the future become subject to lawsuits or other proceedings for purportedly fraudulent transactions arising out of the actual or alleged theft of our patients' credit or debit card information if the security of our third-party credit card payment processor is breached. We and our third-party credit card payment processor are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we or our third-party credit card payment processor fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our patients, and there may be an adverse impact on our business.

***If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, our share price and trading volume could decline.***

The trading market for our common shares depends, in part, on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our shares or publish inaccurate or unfavorable research about our business, our share price would likely decline. In addition, if our operating results fail to meet the forecasts of analysts, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our common shares could decrease, which might cause our share price and trading volume to decline.

***We may be subject to criminal or civil sanctions if we fail to comply with privacy regulations regarding the protection, use and disclosure of patient information.***

The HIPAA Privacy Rule (the “Privacy Rule”) restricts the use and disclosure of patient information and requires entities to safeguard that information and to provide certain rights to individuals with respect to that information. The HIPAA Security Rule (the “Security Rule”) establishes elaborate requirements for safeguarding patient health information transmitted or stored electronically.

The Privacy Rule and Security Rule require the development and implementation of detailed policies, procedures, contracts and forms to assure compliance. We have implemented such compliance measures, but we may be required to make additional costly system purchases and modifications to comply with evolving HIPAA rules, and our failure to comply may result in liability and adversely affect our business.

New health information standards, whether implemented pursuant to HIPAA, congressional action or otherwise, could have a significant effect on the manner in which we must handle healthcare related data, and the cost of complying with standards could be significant. If we do not properly comply with existing or new laws and regulations related to patient health information, we could be subject to criminal or civil sanctions.

***Evolving regulation of corporate governance and public disclosure may result in additional expenses and continuing uncertainty.***

Changing laws, regulations and standards relating to corporate governance and public disclosure, including those of the CSA, the SEC, the TSX and the NYSE American are creating uncertainty for companies such as ours. These new or changed laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and we may be harmed.

Future changes in financial accounting standards may cause adverse, unexpected revenue fluctuations and affect our financial position or results of operations. New pronouncements and varying interpretations of pronouncements have occurred with greater frequency and are expected to occur in the future. Compliance with changing regulations of corporate governance and public disclosure may result in additional expenses. All of these uncertainties are leading generally toward increasing insurance costs, which may adversely affect our business, results of operations and our ability to purchase any such insurance, at acceptable rates or at all, in the future.

***Anti-takeover provisions could discourage a third party from making a takeover offer that could be beneficial to our shareholders.***

From time to time, another entity could pursue us as an acquisition target, or could otherwise seek to influence our corporate affairs. However, some of the provisions in our articles of incorporation could delay or prevent a third party from acquiring us or replacing members of our Board of Directors, even if the acquisition or the replacements would be beneficial to our shareholders. These provisions could also reduce the price that certain investors might be willing to pay for our securities and result in the market price for our securities, including the market price for our common shares, being lower than it would be without these provisions.

***We are an “emerging growth company” and a “smaller reporting company,” and any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to such companies could make our common shares less attractive to investors.***

We are an “emerging growth company,” as defined in the Jumpstart our Business Startups Act of 2012 (the “JOBS Act”), and a “smaller reporting company,” as defined under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and we have taken advantage of certain exemptions from various reporting and compliance requirements that apply to other public companies that are not “emerging growth companies” or “smaller reporting companies.” These exemptions include, but are not limited to, the following:

- not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act;
- only being required to include two, as opposed to three, years of audited financial statements in our annual reports;
- less extensive disclosure obligations regarding executive compensation in our registration statements, periodic reports and proxy statements; and
- exemptions from the requirements to hold a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

We cannot predict if investors will find our common shares less attractive because of our reliance on these exemptions. If some investors find our common shares less attractive as a result, there may be a less active trading market for our common shares, which could result in a reduction in the price of our common shares or cause our share price to be more volatile.

Effective December 31, 2020, we will no longer be an “emerging growth company” and the reduced disclosure requirements applicable to emerging growth companies and the exemption from the auditor attestation report requirement under Section 404(b) of the Sarbanes-Oxley Act will no longer apply. Preparing such attestation report and the cost of compliance with reporting requirements that we have not previously implemented have increased, and will continue to increase, our expenses and require significant management time. Investors may find our common shares less attractive because of the additional compliance costs. If some investors find our common shares less attractive as a result, there may be a less active trading market for our common shares and our share price may be more volatile.

***We do not intend to pay dividends on our common shares, and, consequently, your ability to achieve a return on your investment will depend on appreciation, if any, in the price of our common shares.***

We have never declared or paid any cash dividend on our common shares and do not currently intend to do so for the foreseeable future. We currently anticipate that we will retain future earnings for the development, operation and expansion of our business. In addition, any future debt financing arrangement may contain terms prohibiting or limiting the amount of dividends that may be declared or paid on our common shares. Any return to shareholders will therefore be limited to any appreciation of their shares. Therefore, the success of an investment in our common shares will depend upon any future appreciation in their value. There is no guarantee that our common shares will appreciate in value or even maintain the price at which our shareholders purchased their shares.

***Income tax audits and changes in our effective income tax rate could affect our results of operations.***

Our effective tax rate could be adversely affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses arising from stock option compensation, the valuation of deferred tax assets and liabilities and changes in federal, state or provincial tax laws and accounting principles. Increases in our effective tax rate could materially affect our net results.

In addition, we are subject to income tax audits by many tax jurisdictions. Although we believe our income tax liabilities are reasonably estimated and accounted for in accordance with applicable laws and principles, an adverse resolution of one or more uncertain tax positions in any period could have a material impact on the results of operations for that period.

*The patent protection for our products may expire before we are able to maximize their commercial value, which may subject us to increased competition and reduce or eliminate our opportunity to generate revenues.*

Our patents have varying expiration dates and, if these patents expire, we may be subject to increased competition, which could reduce or eliminate our opportunity to generate revenues or limit our ability to market our approved products. For example, our primary patents in the United States and Canada expired on March 8, 2016. Upon expiration of our patents, we may be subject to increased competition and our opportunity to establish or maintain product revenues could be substantially reduced or eliminated. Although we will continue to protect our proprietary rights through a variety of means, including the filing of three additional patents in September 2013 – one of which was issued in 2015, with a second one issued in 2016 – we cannot guarantee that the protective steps we have taken are adequate to protect these rights. In addition, as our patents expire, we may be unsuccessful in extending their protection through patent term extensions. The expiration of, or the failure to maintain or extend our patents could have a material adverse effect on our financial condition, results of operations or prospects.

*We may face exposure to adverse movements in foreign currency exchange rates.*

Our business is primarily based in the United States with a significant portion of our revenues, expenses, current assets and current liabilities denominated in U.S. dollars. Our financial statements are also expressed in U.S. dollars. An increase or decrease in the value of foreign currencies relative to the U.S. dollar could result in increased expenses and losses from currency exchange rate fluctuations.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

We did not make sales of equity securities during our fiscal quarter ended June 30, 2020 that were not registered under the Securities Act.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Description</b>
3.1	<a href="#"><u>Notice of Articles of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K (File No. 001-37542, originally filed with the SEC on March 13, 2019).</u></a>
3.2	<a href="#"><u>Articles of the Registrant (incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form S-8 (File No. 333-206945), originally filed with the SEC on September 14, 2015).</u></a>
4.1	<a href="#"><u>Specimen Common Share certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 (File No. 333-206945), originally filed with the SEC on September 14, 2015).</u></a>
31.1	<a href="#"><u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.</u></a>
31.2	<a href="#"><u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.</u></a>
32.1	<a href="#"><u>Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2	<a href="#"><u>Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)



## **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### **CRH MEDICAL CORPORATION**

By: /s/ Tushar Ramani, MD

Name: Tushar Ramani, MD

Title: Chief Executive Officer and Director (Principal Executive Officer)

Date: November 12, 2020

By: /s/ Richard Bear

Name: Richard Bear

Title: Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Date: November 12, 2020