CRH Medical Corporation

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Year ended December 31, 2018
Financial Report

Trading Information:	TSE (Symbol "CRH")
	NYSE MKT (Symbol "CRHM")
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Management's Discussion and Analysis of Financial Condition and Results of Operation

*The following discussion should be read in conjunction with the attached financial statements and notes thereto. The Company prepares its financial statements in accordance with U.S. generally accepted accounting principles ("**U.S. GAAP**"). The Company's* 2018 *Annual Report on Form 10-K, including the following section, 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. For a detailed discussion of these risks and uncertainties, see Item 1A, "Risk Factors" of the Company's 2018 Annual Report on Form 10-K. 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 the Company's 2018 Annual Report on Form 10-K. We undertake no obligation to update forward-looking statements which reflect events or circumstances occurring after the date of the Company's 2018 Annual Report on Form 10-K, except as required by law. 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 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 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

In the year ended December 31, 2018, the Company's financial results reflect the impact of the CMS 2018 Medicare Final Physician Fee Schedule and the acquisition of five additional anesthesia services providers.

CMS 2018 Medicare Final Physician Fee Schedule – January 2018

The final CMS ("Centers for Medicare and Medicaid Services") 2018 Medicare Physician Fee Schedule was announced on November 2, 2017 and updated the payment policies, payment rates, and other provisions for services furnished under the Medicare Physician Fee Schedule on or after January 1, 2018.

The Medicare Final Physician Fee Schedule changed the billing structure for CRH's primary billing code for anesthesia provided in conjunction with a lower endoscopy by eliminating the existing billing code and replacing it with three new billing codes. Two of the new billing codes had lower base unit values with the net effect of decreasing the amount CRH billed and collected for anesthesia services provided in conjunction with a lower endoscopy.

Shreveport Sedation Associates, LLC ("SSA") – March 2018

On March 19, 2018, a subsidiary of the Company entered into an asset purchase agreement to acquire 100% of certain assets of an anesthesia services provider in Louisiana. The purchase consideration, paid via cash, for the acquisition was $9,404,148. The allocated cost of the exclusive professional service agreement which was acquired as part of this acquisition was $9,391,036. The Company also acquired a prepaid asset as part of the acquisition.

Western Ohio Sedation Associates, LLC ("WOSA") – May 2018

On May 1, 2018, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire 51% of the ownership interest in an anesthesia services provider in Ohio. The purchase consideration, paid via cash, for the acquisition was $6,409,000. The allocated cost of the exclusive professional services agreement which was acquired as part of this acquisition was $12,713,133.

Lake Washington Anesthesia Associates, LLC ("LWA") – July 2018

On July 26, 2018, a subsidiary of the Company entered into a membership interest purchase agreement, effective July 1, 2018, to acquire a 51% interest in Lake Washington Anesthesia Associates, LLC ("LWA"), a gastroenterology anesthesia services provider in Washington State. The purchase consideration, paid via cash, for the acquisition of the Company's 51% interest was $5,000,000. The allocated cost of the exclusive professional service agreement which was acquired as part of this acquisition was $9,886,156.

LWA is the Company's first Monitored Anesthesia Care ("MAC") program to be completed. The MAC program was announced on March 15, 2017 with Puget Sound Gastroenterology ("PSG"). CRH assisted PSG in the development of PSG's MAC program under LWA. CRH retained an option to acquire a 51% interest in LWA, which has since been exercised.

Lake Erie Sedation Associates, LLC ("LESA") – September 2018

On September 4, 2018, a subsidiary of the Company entered into an asset purchase agreement to acquire 100% of certain assets of an anesthesia services provider in Ohio. The purchase consideration, paid via cash, for the acquisition was $4,180,000. The allocated cost of the exclusive professional service agreement which was acquired as part of this acquisition was $4,233,115.

Triad Sedation Associates LLC ("TSA") – October 2018

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 is a 15% equity owner in the anesthesia business, Triad Sedation

Associates LLC, and receives compensation for its billing and collection services. Under the terms of the limited liability company agreement, CRH has the right, at CRH's option, to acquire an additional 36% interest in the anesthesia business at a future date. The Company will not recognize any material revenue or expense from this transaction unless CRH elects to exercise its option.

Normal Course Issuer Bid Renewal – November 2018

On November 5, 2018, the Company received approval from the Toronto Stock Exchange ("TSX") of its intention to renew its existing Normal Course Issuer Bid. Pursuant to the bid, the Company may purchase for cancellation up to 7,044,410 of its common shares, or approximately 9.74% of the common shares outstanding as of November 5, 2018. Purchases under the bid are subject to a daily restriction of 46,958 shares. As of December 31, 2018, the Company has repurchased 2,604,700 common shares under both its previous and current normal course issuer bids for a total of $6,657,446 (CAD$8,614,275), including transaction fees.

Tennessee Valley Anesthesia Associates LLC ("TVAA") – December 2018

On December 1, 2018, the Company entered into an asset contribution and exchange agreement to acquire 51% of the ownership interest in an anesthesia services provider in Tennessee. The purchase consideration, paid via cash, for the acquisition was $2,200,000. The allocated cost of the exclusive professional services agreement which was acquired as part of the transaction was $4,423,284.

Anesthesia Care Associates LLC ("ACA") – January 2019

On January 1, 2019, a subsidiary of the Company entered into a membership interest purchase agreement to acquire a 100% interest in Anesthesia Care Associates, LLC ("ACA"), a gastroenterology anesthesia services provider in Indiana. The purchase consideration, paid via cash, for the acquisition of the Company's 100% interest was $5,239,003. The allocated cost of the exclusive professional service agreement which was acquired as part of this acquisition was $5,355,028.

Results of Operations

As a non-U.S. company listed on the NYSE American, the United States Securities and Exchange Commission ("SEC") requires us to perform a test on the last business day of the second quarter of each fiscal year to determine whether we continue to meet the definition of a foreign private issuer ("FPI"). Historically, we met the definition of an FPI, and as such, prepared consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), reported with the SEC on FPI forms, and complied with SEC rules and regulations applicable to FPIs.

On June 30, 2018, we performed the test and determined that we no longer met the definition of an FPI. As such, from January 1, 2019, the Company is required to prepare consolidated financial statements in accordance with United States Generally Accepted Accounting Principles ("US GAAP"), report with the SEC on domestic forms, and comply with SEC rules and regulations applicable to domestic issuers.

The Company's historical financial statements were previously presented under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) up to and including the Company's September 30, 2018 interim report.

The conversion from IFRS to US GAAP resulted in adjustments to the Company's balance sheet and statement of operations for the year ended December 31, 2017, as well as adjustments to the Company's interim balance sheets and statements of operations for the quarters ended March 31, 2018, June 30, 2018 and September 30, 2018. All financial data contained within this document has been restated and presented in accordance with

US GAAP. A summary of the impact of conversion from IFRS to US GAAP on the Company's statement of operations and balance sheet for the year ended December 31, 2017 is presented below:

	Year ended December 31, 2017		
	As previously reported (IFRS)[1]	Adjustments	Restated (US GAAP)
Net and comprehensive income	$ 13,668,118	$5,506,952	$ 19,175,070
Attributable to:			
Shareholders of the Company	6,558,966	5,519,887	12,078,853
Non-controlling interest	$ 7,109,152	$ (12,935)	$ 7,096,217
Total assets	198,450,878	5,504,627	203,955,505
Total liabilities	73,514,590	(857,130)	72,657,460
Total equity attributable to shareholders of the Company	67,658,972	6,187,225	73,846,197
Non-controlling interest	57,277,316	174,532	57,451,848

[1] The IFRS numbers are non-GAAP amounts as IFRS is no longer the Company's primary GAAP. However, these numbers are presented in order to provide context to the Company's previously issued 2017 financial statements under IFRS.

The primary driver of the IFRS to US GAAP adjustments was the elimination of the Company's impairment charge in relation to its GAA professional services intangible asset and related tax impact. This increase in income was offset by an incremental increase in stock based compensation expense related to the Company's performance based share units, and related tax impact, and additional amortization relating to the capitalization of acquisition costs on the Company's acquisitions completed during the year ended December 31, 2017. Previously, under IFRS, the Company accounted for its acquisitions as business combinations. Under US GAAP, these transactions are accounted for as asset acquisitions. The conversion from IFRS to US GAAP had no impact on the Company's Adjusted Operating EBITDA[2].

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") beginning December 31, 2018 on a retrospective basis.

[2] See *"Use of Non-GAAP Financial Measures"* below for definitions of Non-GAAP-based measures and reconciliations of GAAP-based measures to Non-GAAP-based measures

SELECTED US GAAP FINANCIAL INFORMATION

	2018	2017	% Change
Anesthesia services revenue	$101,790,165	$83,505,140	22%
Product sales revenue	10,959,215	11,501,005	(5%)
Total revenue	**112,749,380**	**95,006,145**	**19%**
Total operating expenses, including:	**92,454,250**	**74,186,860**	**25%**
Depreciation and amortization expense	31,486,055	23,834,400	32%
Stock based compensation expense	2,800,750	4,036,070	(31%)
Operating income	**20,295,130**	**20,819,285**	**(3%)**
Operating margin	**18.0%**	**21.9%**	
Net finance expense (recovery)	**4,567,327**	**(5,514,850)**	**183%**
Tax expense	**2,711,886**	**7,159,065**	**(62%)**
Net and comprehensive income	**$ 13,015,917**	**$19,175,070**	**(32%)**
Attributable to:			
Shareholders of the Company	4,679,921	12,078,853	(61%)
Non-controlling interest[1]	8,335,996	7,096,217	17%
Earnings per share attributable to shareholders:			
Basic	$ 0.064	$ 0.164	
Diluted	$ 0.063	$ 0.161	

[1] Non-controlling interest reflects the ownership interest of persons holding non-controlling interests in non-wholly owned subsidiaries of the Company.

NON-GAAP FINANCIAL MEASURES

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 US GAAP, and are therefore unlikely to be comparable to 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. See "Use of Non-GAAP Financial Measures" elsewhere in this Annual Report on Form 10-K.

SELECTED FINANCIAL INFORMATION – NON-GAAP MEASURES[1]

	2018	2017	% Change
Total Adjusted operating expenses	$58,060,387	$45,871,663	27%
Adjusted operating EBITDA – non-controlling interest[2]	18,856,198	14,798,542	27%
Adjusted operating EBITDA – shareholders of the Company	35,832,795	34,335,942	4%
Adjusted operating EBITDA – total	$54,688,993	$49,134,485	11%
Adjusted operating EBITDA margin	48.5%	51.7%	

[1] See "*Use of Non-GAAP Financial Measures*" below for definitions of Non-GAAP-based measures and reconciliations of GAAP-based measures to Non-GAAP-based measures.

[2] Non-controlling interest reflects the ownership interest of persons holding non-controlling interests in non-wholly owned subsidiaries of the Company.

Summary of Quarterly Results (Unaudited)

The following table sets forth certain unaudited consolidated statements of operations data for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the year ended December 31, 2018.

Seasonality impacts quarterly anesthesia and product revenues. With our expenses primarily fixed, adjusted operating EBITDA margins will fluctuate quarterly with operating EBITDA margins being greater during the fourth quarter of each year and operating EBITDA margins being less during the first quarter of each year. Seasonality also impacts net income as net income will fluctuate with fluctuations in adjusted operating EBITDA.[1]

(in 000's of US$, except EPS)	Q4 '18	Q3 '18	Q2 '18	Q1 '18	Q4 '17	Q3 '17	Q2 '17	Q1 '17
Anesthesia services revenue	28,931	26,073	24,677	22,109	27,478	19,294	18,140	18,592
Product sales revenue	3,090	2,658	2,654	2,557	3,072	2,865	2,788	2,776
Total revenue	**32,022**	**28,732**	**27,331**	**24,666**	**30,550**	**22,159**	**20,928**	**21,369**
Total operating expense	**25,094**	**24,232**	**22,902**	**20,226**	**21,634**	**18,149**	**17,156**	**17,248**
Adjusted operating expenses								
Anesthesia services	13,554	13,047	12,102	10,416	11,411	9,177	8,712	8,299
Product sales	1,237	1,065	1,271	1,093	1,295	1,094	1,142	1,037
Corporate	1,361	1,108	1,064	743	882	994	844	985
Total adjusted operating expenses	**16,151**	**15,220**	**14,437**	**12,252**	**13,588**	**11,265**	**10,698**	**10,320**
Operating income	**6,928**	**4,499**	**4,428**	**4,439**	**8,917**	**4,010**	**3,772**	**4,121**
Operating margin	**22%**	**16%**	**16%**	**18%**	**29%**	**18%**	**18%**	**19%**
Adjusted operating EBITDA - non-controlling interest[2]	5,215	4,996	4,464	4,182	5,473	3,119	2,878	3,329
Adjusted operating EBITDA- shareholders of the Company	**10,656**	**8,515**	**8,429**	**8,231**	**11,489**	**7,775**	**7,352**	**7,719**
Adjusted operating EBITDA - total	**15,871**	**13,512**	**12,893**	**12,414**	**16,963**	**10,894**	**10,230**	**11,048**
Adjusted operating EBITDA margin	**50%**	**47%**	**47%**	**50%**	**56%**	**49%**	**49%**	**52%**
Net finance (income) expense	1,721	1,625	609	612	(9,822)	(392)	3,425	1,274
Income tax expense (recovery)	1,059	390	593	669	7,562	658	(401)	(660)
Net income	**4,148**	**2,484**	**3,226**	**3,157**	**11,176**	**3,744**	**748**	**3,507**
Net income attributable to:								
Shareholders of the Company	1,711	267	1,291	1,411	8,168	2,528	(364)	1,747
Non-controlling interest[2]	2,437	2,218	1,935	1,746	3,009	1,216	1,111	1,760
Adjusted Operating EBITDA per share attributable to shareholders								
Basic	0.146	0.116	0.116	0.113	0.156	0.105	0.099	0.106
Diluted	0.143	0.114	0.114	0.111	0.153	0.103	0.097	0.102
Earnings (loss) per share attributable to shareholders								
Basic	0.023	0.004	0.018	0.019	0.111	0.034	(0.005)	0.024
Diluted	0.023	0.004	0.017	0.019	0.109	0.033	(0.005)	0.023

[1] See "*Use of Non-GAAP Financial Measures*" below for definitions of Non-GAAP-based measures and reconciliations of GAAP-based measures to Non-GAAP-based measures.

[2] 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 Years Ended December 31, 2018 and 2017

Revenues for the year ended December 31, 2018 were $112,749,380 compared to $95,006,145 for the year ended December 31, 2017. The 19% increase is mainly attributable to revenue contributions from the anesthesia businesses acquired by the Company in 2018, along with acquisitions completed mid-year in fiscal 2017. Revenues for the three months ended December 31, 2018 reflect the revenue contributions from anesthesia businesses acquired during 2018 and were $32,021,768, an increase of 5% or $1,471,023 when compared to the three months ended December 31, 2017.

Revenues from anesthesia services for the year ended December 31, 2018 were $101,790,165 compared to $83,505,140 for the year ended December 31, 2017. As above, the increase was primarily due to the Company's anesthesia acquisitions throughout 2018 and 2017; however, there were additional factors which impacted the change in revenue between fiscal 2018 and fiscal 2017. The $18.3 million increase in revenue from the prior period is reflective of the following:

- growth through acquisitions completed in 2017 and 2018 contributed $28.2 million of the increase when comparing the two periods. This is comprised of growth from acquisitions completed in 2017 ($16.3 million) and growth from acquisitions completed in 2018 ($11.9 million);
- the impact of the CMS final fee schedule, effective January 1, 2018, resulted in a decrease in revenue of approximately $7.5 million or 9% when compared to the full year 2017;
- executing contracts with non-contracted payors and changes in payor mix, primarily related to entities acquired prior to 2018, decreased 2018 revenue by $3.0 million or approximately 4% when compared to 2017;
- revenues relating to our monitored anesthesia care program decreased by $0.1 million as a result of the acquisition of LWA; and
- the company incurred a positive adjustment as a result of a non-recurring change in estimate of $0.7 million.

Anesthesia revenues for the three months ended December 31, 2018 were $28,931,460 compared to $27,478,475 for the three months ended December 31, 2017. The $1.4 million increase in revenue from the prior period is reflective of the following:

- growth through acquisitions completed in 2018 contributed $5.5 million of the increase when comparing the two periods;
- the impact of the CMS final fee schedule, effective January 1, 2018, resulted in a decrease in revenue of approximately $2.4 million or 9% when compared to the fourth quarter of 2017;
- executing contracts with non-contracted payors and changes in payor mix, primarily related to entities acquired prior to 2018, decreased revenue in the fourth quarter of 2018 by $1.5 million or approximately 5% when compared to the fourth quarter of 2017;
- revenues relating to our monitored anesthesia care program decreased by $0.2 million as a result of the acquisition of LWA; and
- the company incurred a positive adjustment as a result of a non-recurring change in estimate of $0.1 million.

As adjusted operating expenses are largely fixed in nature, changes in revenue primary drive changes in operating income and adjusted operating EBITDA[1].

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[1] See "*Use of Non-GAAP Financial Measures*" below for definitions of Non-GAAP-based measures and reconciliations of GAAP-based measures to Non-GAAP-based measures.

In the year ended December 31, 2018, the anesthesia services segment serviced 276,766 patient cases compared to 201,578 patient cases during the year ended December 31, 2017. Patient cases serviced in the fourth quarter of 2018 were 81,528 compared to 64,684 patient cases in the fourth quarter of 2017.

The tables below summarize our approximate payor mix as a percentage of all patient cases for the years ended December 31, 2018 and 2017 and for the fourth quarters of 2018 and 2017.

	Three months ended			Years ended		
Payor	**December 31, 2018**	**December 31, 2017[1]**	**Change**	**December 31, 2018**	**December 31, 2017[6]**	**Change**
Commercial	62.8%	63.3%	(0.8%)	59.3%	60.0%	(1.3%)
Federal	37.2%	36.7%	1.5%	40.7%	40.0%	1.9%
Total	**100.0%**	**100.0%**		**100.0%**	**100.0%**	

[1] Restated to conform with presentation adopted in 2018.

The payor mix for the three months and year ended December 31, 2018 includes acquisitions completed during 2017 and 2018 and as a result is not directly comparable to the three months and year ended December 31, 2017. 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 months and year ended December 31, 2018 and 2017, but exclude patient cases related to acquisitions completed in 2017 and 2018 as inclusion of these acquisitions would reduce comparability of the data presented.

	Three months ended			Years ended		
Payor	**December 31, 2018**	**December 31, 2017[6]**	**Change**	**December 31, 2018**	**December 31, 2017[6]**	**Change**
Commercial	64.0%	63.6%	0.6%	59.8%	60.4%	(1.0%)
Federal	36.0%	36.4%	(1.0%)	40.2%	39.6%	1.5%
Total	**100.0%**	**100.0%**		**100.0%**	**100.0%**	

The table below summarizes our approximate payor mix as a percentage of all patient cases for the year ended December 31, 2018, by quarter, and excludes patient cases related to acquisitions completed in 2018 as inclusion of these acquisitions would reduce the comparability of the date presented.

Payor	**Q4 2018**	**Q3 2018**	**Q2 2018**	**Q1 2018**
Commercial	63.6%	59.3%	58.2%	57.5%
Federal	36.4%	40.7%	41.8%	42.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Seasonality is driven by both patient cases and seasonal payor mix. As a result, revenue per patient will fluctuate quarterly. The seasonality of patient cases for fiscal 2018 is provided below for organic patient cases; it excludes patient cases relating to acquisitions completed in 2018.

Seasonality	**Q4 2018**	**Q3 2018**	**Q2 2018**	**Q1 2018**
Patient cases	26.3%	24.7%	25.2%	23.8%

Revenues from product sales for the year ended December 31, 2018 were $10,959,215 compared to $11,501,005 for 2017. The decrease in product sales is the result of decreased sales of the CRH O'Regan System at previously trained practices due to changes in practice emphasis and to a lesser extent the introduction of competitive products. In the last quarter of the year we have initiated additional practice support initiatives, including a greater emphasis on re-training physicians in practices where usage has decreased. We have seen traction with

these initiatives with revenues from product sales for the three months ended December 31, 2018 increasing by 1%, when compared to the three months ended December 31, 2017. As of December 31, 2018, the Company has trained 2,944 physicians to use the O'Regan System, representing 1,124 clinical practices. This compares to 2,686 physicians trained, representing 1,034 clinical practices, as of December 31, 2017.

Total operating expenses

Total operating expense for the year ended December 31, 2018 was $92,454,250 compared to $74,186,860 for the year ended December 31, 2017. Total operating expense for the three months ended December 31, 2018 was $25,093,657 compared to $21,634,236. The increase in operating expenses is largely driven by increases seen in total adjusted operating expense (refer to the "Total adjusted operating expenses – Non-GAAP section below) as well as increases in amortization expense related to acquisitions completed in 2018 and throughout 2017, offset by a decrease in stock-based compensation expense.

Amortization expense increased by 32% from 2017. This is a result of acquisitions completed in 2017 and 2018 and the related intangible assets that were acquired. Stock-based compensation expense decreased by 31% when compared to 2017. This decrease is due to the fact that certain performance based share unit awards early vested in 2017, resulting in recognition of the full expense relating to those awards. There was no similar early vest of performance based awards in 2018.

Total adjusted operating expenses – Non-GAAP[1]

For the year ended December 31, 2018, total adjusted operating expenses were $58,060,387 compared to $45,871,663 for the year ended December 31, 2017. For the three months ended December 31, 2018, total adjusted operating expenses were $16,151,179 compared to $13,588,201 for the three months ended December 31, 2017. Increases in adjusted operating expenses are primarily related to adjusted operating expenses in the anesthesia services business. Factors impacting the fluctuation of total adjusted operating expenses are consistent with those impacting operating expenses.

Anesthesia services adjusted operating expenses for the year ended December 31, 2018 were $49,119,072, compared to $37,598,984 for the year ended December 31, 2017. 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. The Company's first anesthesia acquisition was in the fourth quarter of 2014, with nineteen further acquisitions completed in 2015, 2016, 2017 and 2018. As a result, fiscal 2018 is not directly comparable to 2017, with the majority of the increase relating to operating expenses for acquired companies. Though revenue may fluctuate significantly, adjusted operating expenses, which are primarily employee related costs, due to their fixed nature, increase as a result of the Company's acquisition strategy. Total adjusted operating expenses per case for the anesthesia segment were $177 per case for the year ended December 31, 2018, as compared to $187 per case for the year ended December 31, 2017. The decrease in expense per case is reflective of the leverage of our existing infrastructure and the cost profile of acquisitions completed in fiscal 2018. Anesthesia services adjusted operating expenses for the three months ended December 31, 2018 were $13,553,945 compared to $11,410,880 for the three months ended December 31, 2017. Total adjusted operating expenses per case were $166 per case for the three months ended December 31, 2018 as compared to $176 per case for the three months ended December 31, 2017.

Product sales adjusted operating expenses for the year ended December 31, 2018 were $4,665,616 compared to $4,568,422 for the year ended December 31, 2017. Employment and related costs have remained consistent with fiscal 2017, with the slight overall increase in costs relating to higher product support costs, specifically related

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[1] See "*Use of Non-GAAP Financial Measures*" below for definitions of Non-GAAP-based measures and reconciliations of GAAP-based measures to Non-GAAP-based measures.

to marketing and training, offset by a decrease in professional fees. The product operating segment incurred higher than normal professional fees in 2017 as part of its efforts to distribute the company's product offering in China. In the future, the Company expects adjusted operating expenses to increase as the Company continues to invest in activities aimed at increasing demand for training and increasing the use or adoption of the CRH O'Regan System. Product sales adjusted operating expenses for the three months ended December 31, 2018 were $1,236,732 compared to $1,295,163 for the three months ended December 31, 2017.

Corporate adjusted operating expenses for the year ended December 31, 2018 were $4,275,699 compared to $3,704,255 for the year ended December 31, 2017. The increase in corporate adjusted operating expense is a reflection of higher professional fees and employee related costs, and, in general, is reflective of the increasing complexity of our business which is also increasing our compliance costs. Corporate adjusted operating expenses for the three months ended December 31, 2018 were $1,360,502 compared to $882,158 for the three months ended December 31, 2017.

Operating Income

Operating income for the year ended December 31, 2018 was $20,295,130 compared to $20,819,285 for the same period in 2017. Operating income for the three months ended December 31, 2018 was $6,928,201 compared to $8,916,509 for the comparable period in 2017. The following schedule reconciles the changes in operating income between periods:

	Year ended December 31, 2018	Quarter ended December 31, 2018
Prior period operating income	$ 20,819,285	$ 8,916,509
Increase in period revenues	17,743,235	1,471,023
Increase in period adjusted operating expenses[1]	(12,188,732)	(2,562,978)
Increase in period amortization and depreciation expense	(7,651,655)	(1,127,469)
Decrease in period stock based compensation expense	1,235,320	138,227
Decrease in period acquisition expenses	337,678	92,890
Current period operating income	$ 20,295,130	$ 6,928,201

[1] See "*Use of Non-GAAP Financial Measures*" below for definitions of Non-GAAP-based measures and reconciliations of GAAP-based measures to Non-GAAP-based measures.

Changes in the company's revenues and adjusted operating expenses[1] 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.

Contributing to the decrease in operating income for the year are incremental amortization costs related to the acquired professional service agreements relating to acquisitions completed in 2017 and 2018 of $7,651,655 and decreases in stock based compensation expense of $1,235,320 and a decrease in acquisition expenses of $337,678.

Contributing to the decrease in operating income for the quarter are incremental amortization costs related to the acquired professional service agreements relating to acquisitions completed in 2018 of $1,127,469 and decreases in stock based compensation expense of $138,227 and a decrease in acquisition expenses of $92,890.

Anesthesia operating income for the year ended December 31, 2018 was $20,711,015, a decrease of $658,678 from the same period in 2017. This decrease is primarily reflective of the incremental costs related to the amortization of acquired professional service agreements relating to acquisitions completed in 2017 and 2018, offset by the increase in operating EBITDA in the year (calculated above as revenues less adjusted operating expenses). Anesthesia operating income for the three months ended December 31, 2018 was $6,957,715 compared to income of $8,693,176 for the three months ended December 31, 2017.

Product operating income for the year ended December 31, 2018 was $5,936,478, a decrease of $566,977 from the same period in 2017. The decrease is primarily driven by the decline in revenues in the year, offset by a slight increase in adjusted operating expenses. Product operating income for the three months ended December 31, 2018 was $1,825,090 compared to $1,664,559 for the three months ended December 31, 2017.

Adjusted operating EBITDA[1] – Non-GAAP

Adjusted operating EBITDA attributable to shareholders of the Company for the year ended December 31, 2018 was $35,832,795, an increase of $1,496,853 from the year ended December 31, 2017. The increase in adjusted operating EBITDA attributable to shareholders is primarily a reflection of the contributions from acquisitions completed in 2017 and 2018, offset by the impacts of the CMS final rule, and the impact of moving from non-contracted to a contracted status for commercial payors. Adjusted operating EBITDA is also favourably impacted by the decrease in adjusted anesthesia operating expense per case.

Adjusted operating EBITDA attributable to shareholders of the Company for the three months ended December 31, 2018 was $10,655,670, a decrease of 7% from the same period in 2017. The decrease is primarily a reflection of contributions from acquisitions completed in 2018, offset by the impact of the CMS final rule and the impact of moving from non-contracted to a contracted status for commercial payors.

Adjusted operating EBITDA attributable to non-controlling interest was $18,856,198 for the year ended December 31, 2018. This comprises the non-controlling interests' share of revenues of $32,328,448 and adjusted operating expenses of $13,472,250. Adjusted operating EBITDA attributable to non-controlling interest was $5,214,919 for the three months ended December 31, 2018. This comprises the non-controlling interests' share of revenues of $8,973,998 and adjusted operating expenses of $3,759,079.

Total adjusted operating EBITDA was $54,688,993 for the year ended December 31, 2018, an increase of 11% from the same period in 2017. Total adjusted operating EBITDA was $15,870,589 for the three months ended December 31, 2018, a decrease of 6% from the same period in 2017.

Net finance (income) / expense

As a result of the Company's debt facilities and long-term finance obligations, the Company has recorded a net finance expense of $4,567,327 for the year ended December 31, 2018, compared to a net finance recovery of $5,514,850 for the year ended December 31, 2017. Net finance expense is comprised of both interest and other debt related expenses, including fair value adjustments, as well as foreign exchange gains and losses on the Crown debt which was denominated in Canadian dollars. On June 26, 2017, the Company paid off and extinguished its Crown debt. As a result of the extinguishment of the Crown debt, the Company's effective interest rate is lower than it has been in previous years with the difference between cash interest expense in 2018 versus 2017 reflective of this. The net change in the fair value of the Company's earn out obligation, offset by the

[1] See "*Use of Non-GAAP Financial Measures*" below for definitions of Non-GAAP-based measures and reconciliations of GAAP-based measures to Non-GAAP-based measures.

Company's extinguishment of its Crown debt in the second quarter of 2017, was the primary driver of the finance recovery in fiscal 2017.

	2018	2017
Finance income:		
Foreign exchange gain	$ —	$ —
Net change in fair value of financial liabilities at fair value through earnings (note 20)	—	(11,825,256)
Total finance income	$ —	$(11,825,256)
Finance expense:		
Interest and accretion expense on borrowings	$3,168,762	$ 3,322,321
Accretion expense on earn-out obligation and deferred consideration	166,575	600,602
Amortization of deferred financing fees	260,363	204,057
Net change in fair value of financial liabilities at fair value through earnings	971,627	—
Foreign exchange loss	—	88,084
Extinguishment of notes payable and bank indebtedness	—	2,044,867
Other	—	50,475
Total finance expense	$4,567,327	$ 6,310,406
Net finance (income) expense	$4,567,327	$ (5,514,850)
Net finance expense, excluding fair value adjustments, debt extinguishment and foreign exchange	$3,595,700	$ 4,177,455

During the year ended December 31, 2018, the Company recognized a fair value adjustment of $971,627 in respect of its earn-out obligation. 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 the cash flow estimates and the discount rate utilized. During the three months ended December 31, 2018, the Company recognized a fair value adjustment of $735,359 in respect of its earn-out obligation.

Cash interest paid in the year ended December 31, 2018 was $3,180,808 compared to $3,563,837 cash interest paid in 2017. As at December 31, 2018, the Company owed $70.25 million under the amended Scotia Facility as compared to $61.7 million owed at December 31, 2017. The Company anticipates that, in future, cash interest will fluctuate as the Company draws or repays on its Facility and as LIBOR rates fluctuate.

Income tax expense

For the year ended December 31, 2018, the Company recorded an income tax expense of $2,711,886 compared to income tax expense of $7,159,065 for the year ended December 31, 2017. Income tax expense relates only to income attributable to the Company's shareholders. The Company recorded an income tax expense of $1,059,442 in the three months ended December 31, 2018 compared to $7,562,137 recorded in the three months ended December 31, 2017. In 2017, the US Federal government enacted a reduced federal tax rate. As a result, the valuation of the Company's deferred tax assets reduced, creating additional tax expense in 2017. This is the primary driver of the decline in tax expense period over period as 2018 did not experience any significant tax rate changes.

Net and comprehensive income

For the year ended December 31, 2018, the Company recorded net and comprehensive income attributable to shareholders of the Company of $4,679,921 compared to net and comprehensive income attributable to shareholders of $12,078,853 for the year ended December 31, 2017. The decrease year over year is largely a reflection of the net finance recovery experienced in 2017 of $5,514,850, whereas the Company incurred net finance expense of $4,567,327 in 2018. This net unfavourable change in finance expense of approximately $10 million was offset by a net tax expense decrease of approximately $4.5 million, leading to a decrease in net income attributable to shareholders of approximately $7.4 million.

For the three months ended December 31, 2018, the Company recorded net and comprehensive income attributable to shareholders of the Company of $1,711,144 compared to $8,167,640 for the same period in 2017. The decrease period over period is largely due to the unfavourable change in finance expense of approximately $11.5 million period over period, offset by a net tax expense decrease of approximately $6.5 million.

Net and comprehensive income attributable to non-controlling interest was $8,335,996 for the year ended December 31, 2018. This is an increase of 17% from 2017 and reflects the business model adopted by CRH whereby recent acquisitions, though controlled by CRH, attribute a portion of income earned to non-controlling interests. Net and comprehensive income attributable to non-controlling interests was $2,437,108 for the three months ended December 31, 2018 compared to $3,008,655 for the three months ended December 31, 2017.

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 and asset impairment charges. 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 and asset impairment charges 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 and asset impairment charges. 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.

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

	2018					2017				
(USD in thousands)	FY '18	Q4 '18	Q3 '18	Q2 '18	Q1 '18	FY '17	Q4 '17	Q3 '17	Q2 '17	Q1 '17
Net and comprehensive income	**13,016**	**4,148**	**2,484**	**3,226**	**3,157**	**19,175**	**11,176**	**3,744**	**748**	**3,507**
Net finance (income) expense	4,567	1,720	1,625	609	612	(5,515)	(9,822)	(392)	3,425	1,274
Income tax expense (recovery)	2,712	1,059	390	593	669	7,159	7,562	658	(401)	(660)
Operating income	**20,295**	**6,928**	**4,499**	**4,428**	**4,439**	**20,819**	**8,917**	**4,010**	**3,772**	**4,121**
Amortization expense	31,390	8,313	8,185	7,695	7,196	23,755	7,185	5,904	5,608	5,057
Depreciation and related expense	96	25	24	24	23	80	25	22	20	13
Stock based compensation	2,801	600	745	719	738	4,036	738	770	743	1,786
Acquisition expenses[1]	107	5	59	26	18	445	97	188	88	71
Total adjusted operating EBITDA	**54,689**	**15,871**	**13,512**	**12,893**	**12,414**	**49,134**	**16,963**	**10,894**	**10,230**	**11,048**
Adjusted operating EBITDA attributable to:										
Shareholders of the Company	35,833	10,656	8,515	8,429	8,231	34,336	11,489	7,775	7,352	7,719
Non-controlling interest	18,856	5,215	4,996	4,464	4,182	14,799	5,473	3,119	2,878	3,329

ADJUSTED OPERATING EBITDA MARGIN

	2018					2017				
(USD in thousands)	FY '18	Q4 '18	Q3 '18	Q2 '18	Q1 '18	FY '17	Q4 '17	Q3 '17	Q2 '17	Q1 '17
Revenue	**112,749**	**32,022**	**28,732**	**27,331**	**24,666**	**95,006**	**30,550**	**22,159**	**20,928**	**21,369**
Operating income	**20,295**	**6,928**	**4,499**	**4,428**	**4,439**	**20,819**	**8,917**	**4,010**	**3,772**	**4,121**
Operating margin	**18.0%**	**21.6%**	**15.7%**	**16.2%**	**18.0%**	**21.9%**	**29.2%**	**18.1%**	**18.0%**	**19.3%**
Amortization expense	27.8%	26.0%	28.5%	28.2%	29.2%	25.0%	23.5%	26.6%	26.8%	23.7%
Depreciation and related expense	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Stock based compensation	2.5%	1.9%	2.6%	2.6%	3.0%	4.2%	2.4%	3.5%	3.6%	8.4%
Acquisition expenses[1]	0.1%	0.0%	0.2%	0.1%	0.1%	0.5%	0.3%	0.8%	0.4%	0.3%
Total adjusted operating EBITDA margin	**48.5%**	**49.6%**	**47.0%**	**47.2%**	**50.3%**	**51.7%**	**55.5%**	**49.2%**	**48.9%**	**51.7%**

ADJUSTED OPERATING EXPENSES

(USD in thousands)	FY '18	Q4 '18	Q3 '18	Q2 '18	Q1 '18	FY '17	Q4 '17	Q3 '17	Q2 '17	Q1 '17
	2018					2017				
Anesthesia services expense	**81,079**	**21,973**	**21,405**	**19,957**	**17,743**	**62,135**	**18,785**	**15,332**	**14,478**	**13,540**
Amortization expense	(31,387)	(8,312)	(8,184)	(7,695)	(7,196)	(23,752)	(7,184)	(5,903)	(5,607)	(5,057)
Depreciation and related expense	(7)	(2)	(2)	(2)	(1)	(9)	(3)	(2)	(3)	(2)
Stock based compensation	(459)	(100)	(114)	(132)	(112)	(330)	(89)	(62)	(67)	(111)
Acquisition expenses[1]	(107)	(5)	(59)	(26)	(18)	(445)	(97)	(188)	(88)	(71)
Anesthesia services – adjusted operating expense	**49,119**	**13,554**	**13,047**	**12,102**	**10,416**	**37,599**	**11,411**	**9,177**	**8,712**	**8,299**
Product sales expense	**5,023**	**1,265**	**1,182**	**1,359**	**1,217**	**4,998**	**1,408**	**1,199**	**1,231**	**1,160**
Amortization expense	(3)	(1)	(1)	(1)	(1)	(7)	(1)	(1)	(1)	(5)
Depreciation and related expense	(66)	(17)	(16)	(16)	(16)	(51)	(16)	(14)	(12)	(8)
Stock based compensation	(289)	(11)	(100)	(71)	(107)	(372)	(95)	(90)	(76)	(110)
Product sales - adjusted operating expense	**4,665**	**1,237**	**1,065**	**1,271**	**1,093**	**4,568**	**1,295**	**1,094**	**1,142**	**1,037**
Corporate expense	**6,352**	**1,855**	**1,644**	**1,586**	**1,267**	**7,054**	**1,441**	**1,617**	**1,448**	**2,547**
Amortization expense	—	—	—	—	—	4	—	—	—	4
Depreciation and related expense	(23)	(6)	(6)	(6)	(5)	(20)	(6)	(6)	(5)	(3)
Stock based compensation	(2,053)	(488)	(530)	(516)	(519)	(3,334)	(553)	(618)	(599)	(1,564)
Corporate - adjusted operating expenses	**4,276**	**1,361**	**1,108**	**1,064**	**743**	**3,704**	**882**	**994**	**844**	**985**
Total operating expense	**92,454**	**25,093**	**24,232**	**22,902**	**20,226**	**74,187**	**21,634**	**18,149**	**17,156**	**17,248**
Total adjusted operating expense	**58,060**	**16,151**	**15,220**	**14,437**	**12,252**	**45,872**	**13,588**	**11,265**	**10,698**	**10,320**

[1] Acquisition expenses relating to incomplete acquisitions.

Liquidity and Capital Resources

At December 31, 2018, the Company had $9,946,945 in cash and cash equivalents compared to $12,486,884 at the end of 2017. The decrease in cash and equivalents is primarily a reflection of cash generated from operations and debt financing activities, less cash used to finance normal course issuer bid repurchases and acquisitions during 2018, less repayment of debt in the period.

Working capital was $20,012,424 at December 31, 2018 compared to working capital of $21,167,275 at December 31, 2017. The Company expects to meet its short-term obligations, including short-term obligations in respect of its notes payable and deferred consideration through cash earned through operating activities. The average number of days receivables outstanding at December 31, 2018 was 54 days. At December 31, 2017, the average number of days receivables outstanding was 42 days. Impacting the days receivable outstanding in 2018 is the implementation of the new CMS billing codes in the first quarter of 2018, which resulted in delays in the processing of payments by payors. This has had a prolonged impact in 2018, but is expected to improve in 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 December 31, 2018, the Company has raised approximately $51 million from the sale and issuance of equity securities. The Company also obtained debt financing of $52 million via senior and subordinated credit facilities in 2014 and entered into a revolving credit facility with the Bank of Nova Scotia for $33 million in 2015, which was subsequently increased to $55 million in 2016. Most recently, the Company amended its debt facility with the Bank of Nova Scotia, increasing its facility to $100 million on June 26, 2017. As at December 31, 2018, the Company owed $70.25 million under the facility. The terms of the Company's facility is described below.

*The Bank of Nova Scotia ("**Scotia Facility**")*

On November 24, 2015, the Company entered into a credit facility with the Bank of Nova Scotia. The Scotia Facility, which had a maturity date of April 30, 2018, provided financing of up to $55,000,000, after amendment on June 15, 2016.

On June 26, 2017, the Company amended the Scotia Facility, which includes US Bank and JP Morgan as part of the lending syndicate, to provide financing of up to $100,000,000 via a revolving and term facility. The amended facility has a maturity date of June 26, 2020. In conjunction with this amendment, the Company incurred fees of $445,598 which were capitalized. As at December 31, 2018, the Company had drawn $70,250,000 on the amended facility (2017—$61,700,000). Since there was no reduction in borrowing capacity as a result of this amendment, no existing deferred or new financing fees were expensed upon this modification. The Facility is repayable in full at maturity, with scheduled principal repayments on a quarterly basis beginning September 30, 2017 based on the initial principal issued under the term facility. The facility bears interest at a floating rate based on the US prime rate, LIBOR or bankers' acceptance rates plus an applicable margin. At December 31, 2018, interest on the facility is calculated at LIBOR plus 2.50% on the revolving portion and term portion of the facility. The Facility is secured by the assets of the Company. As at December 31, 2018 the Company is required to maintain the following financial covenants in respect of the Facility:

Financial Covenant	**Required Ratio**
Total funded debt ratio	2.50:1.00
Fixed charge coverage ratio	1.15:1.00

The Company is in compliance with all covenants at December 31, 2018.

Cash provided by operating activities for the year ended December 31, 2018 was $40,992,563 compared to $35,750,754 in the same period in fiscal 2017. Cash provided by operating activities for the quarter ended December 31, 2018 was $11,144,081 compared to $10,708,935 for the same period in fiscal 2017. Cash used in investing activities for the year ended December 31, 2018 was $27,660,941 as compared to $33,502,134 for the year ended December 31, 2017. Cash used in investing activities for the quarter-ended December 31, 2018 was $2,397,652 as compared to $8,728 for the three months ended December 31, 2017.

The Company's near-term cash requirements relate primarily to interest payments, quarterly principal payments in respect of the Scotia Facility, annual payments in respect of the deferred consideration in relation to the Austin acquisition, purchases under the Company's normal course issuer bid, operations, working capital and general corporate purposes, including further acquisitions. Based on the current business plan, 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.

The following table summarizes the relative maturities of the financial liabilities of the Company at December 31, 2018:

At December 31, 2018	Maturity				
	TOTAL	Less than one year	One to three years	Four to five years	After five years
Trade and other payables	$ 5,763,222	$ 5,763,222	$ —	$—	$—
Employee benefits	827,426	827,426	—	—	—
Notes payable and bank indebtedness	75,732,207	6,190,464	69,541,743	—	—
Earn-out obligation	2,920,583	2,920,583		—	—
Deferred consideration	2,300,000	1,100,000	1,200,000	—	—
	$87,543,438	$16,801,695	$70,741,743	$—	$—

As at December 31, 2018, the Company has no material contractual obligations, other than those obligations relating to its leases of premises and those obligations under its debt agreements, deferred consideration agreements, normal course issuer bid agreements, and earn-out obligations as described above. The minimum lease payments in respect of the Company's leases will be $364,068 in fiscal 2019.

The Company's earn-out obligation arose in respect of the Company's acquisition of Gastroenterology Anesthesia Associates LLC in 2014. The Company's earn-out obligation is recorded at fair value and reflects

management's best estimate of the contingent consideration payable. As at December 31, 2018, the fair value of the earn-out obligation is $2,920,583.

Deferred consideration relates to deferred consideration in respect of the Company's Austin Gastroenterology Anesthesia Associates acquisition, which completed in 2016.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably possible could materially impact the financial statements. We believe that the assumptions and estimates associated with anesthesia revenue, the valuation of intangible assets, including our assessment of useful lives and impairment, the valuation of our earn out obligation and the valuation of our deferred tax assets have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates. For further information on all of our significant accounting policies, see Note 3 — Significant Accounting Policies in the accompanying notes to consolidated financial statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K

Impairment and useful lives of intangible assets:

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

The carrying amounts of the Company's intangible assets are reviewed at each reporting date to determine whether there are any events or changes in circumstances indicated that the carrying value may not be recoverable. Example factors that could trigger impairment reviews include significant underperformance relative to historical or projected future operating results, significant changes in the use of the acquired assets or strategy for the overall business and significant negative economic trends. Depending on the specific asset and circumstances, assets are assessed for impairment as an individual asset, as part of an asset group or at the reporting unit (RU") level. A reporting unit is an operating segment or one level below an operating segment if certain conditions are met. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows from other assets or groups of assets.

If indicators of impairment exist, an asset or asset group is impaired if its carrying amount exceeds its fair value, being the projected future undiscounted cash flows that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset or asset group. Projected cash flows are based upon the historical results adjusted to reflect management's best estimate of future market and operating conditions which may differ from actual cash flows.

At December 31, 2018, the Company identified indicators of impairment in respect of four 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, 2018. The income approach is used for the quantitative assessment to estimate the fair value of the assets, which requires estimating future cash flows and risk-adjusted discount rates 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, discount rates and operating cost growth rates. Due to uncertainties in the estimates that are inherent to the Company's industry, 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 a result of this test, no write-downs to the intangible assets were required.

At December 31, 2017, the Company identified indicators of impairment in respect of two of its professional services agreements. Upon performing undiscounted cash flow models for these assets, no impairment was indicated.

Revenue recognition – Anesthesia services:

Anesthesia services revenue consists primarily of patient revenues and is recognized as services are rendered. Patient service revenue is reported net of provisions for contractual allowances and other discounts from third party payors and patients. The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established billing rates. The differences between the estimated program reimbursement rates and the standard billing rates are accounted for as contractual adjustments, which are deducted from gross revenues to arrive at net operating revenues. Retroactive adjustments, if any, are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Income taxes:

The Company records a provision for income taxes for the anticipated tax consequences of the reported results of operations using the asset and liability method. Under this method, it recognizes deferred income tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. The Company recognizes the deferred income tax effects of a change in tax rates in the period of the enactment. The Company records a valuation allowance to reduce its deferred tax assets to the net amount that management believes is more likely than not to be realized. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than fifty percent likely of being realized. The Company records interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

Income tax expense is comprised of current and deferred tax.

Earn-out obligation:

Provisions are recognized if, as a result of a past event, it is probable that a liability has been incurred and the amount is reasonably estimable. Provisions where the timing of payments are fixed or determinable generally are determined by discounting expected future cash outflows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Management uses judgment to estimate the amount, timing and probability of the liability based on facts known at the reporting date. The unwinding of the discount is recognized as a finance expense.

The Company's earn-out obligation is measured at fair value on a recurring basis using significant unobservable inputs (Level 3). 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 the use of a discount rate appropriate to the Company. The Company evaluates the inputs into the valuation technique at each reporting period.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (ASU 2016-02), as amended, which generally requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet and to provide enhanced disclosures surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements. The Company plans to adopt the standard effective January 1, 2019 and expects nearly all operating classified leases to also be classified as operating leases under this new standard with a right-of-use asset and a corresponding obligation recognized on the balance sheet at the adoption date. The lease obligation is measured at amortized cost using the effective interest method. The Company will apply the exemption to treat short-term leases as executory contracts.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (ASU 2017-04), which eliminates step two from the goodwill impairment test. Under ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value up to the amount of goodwill allocated to that reporting unit. This guidance will be effective for us in the first quarter of 2020 on a prospective basis, and early adoption is permitted. We do not expect the standard to have a material impact on our consolidated financial statements.

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.

Tabular Disclosure of Contractual Obligations

Not applicable.

Outstanding Share Data

As at December 31, 2018, there were 72,055,688 common shares issued and outstanding for a total of $55,372,884 in share capital.

As at December 31, 2018, there were 1,344,687 options outstanding at a weighted-average exercise price of $0.50 per share, of which 1,344,687 were exercisable into common shares at a weighted-average exercise price of $0.50 per share. As at December 31, 2018, there were 2,545,250 share units ("**SUs**") issued and outstanding.

As at March 12, 2019, there were 71,694,388 common shares issued and outstanding, excluding shares held as treasury, for a total of $55,153,945 in share capital.

As at March 12, 2019, there were 1,344,687 options outstanding at a weighted-average exercise price of $0.51 per share, of which 1,344,687 were exercisable into common shares at a weighted-average exercise price of $0.51 per share. As at March 12, 2019, there were 2,542,750 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.

We continue the process of evaluating the benefits of relying on other exemptions and reduced reporting requirements under the JOBS Act. Subject to certain conditions, as an emerging growth company, we may rely on certain of these exemptions. As of the date of this Annual Report, we have elected to rely on exemptions for (i) providing an auditor's attestation report on our system of internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act and (ii) complying with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements, known as the auditor discussion and analysis. We will remain an emerging growth company until the earlier of (i) the last day of the fiscal year in which we have total annual gross revenue of $1.07 billion or more; (ii) the last day of the fiscal year following the fifth anniversary of the date of the completion of our initial public offering; (iii) the date on which we have issued more than $1.0 billion in nonconvertible debt during the previous three years; or (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

Financial Statements and Supplementary Data

CRH Medical Corporation
Index to Consolidated Financial Statements
Year ended December 31, 2018

Report of Independent Registered Public Accounting Firm . . . .
Management's Report . . . .
Consolidated Balance Sheets at December 31, 2018 and 2017 . . . .
Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2018 and 2017 . . . .
Consolidated Statements of Changes in Equity for the years ended December 31, 2018 and 2017 . . . .
Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017 . . . .
Notes to the Consolidated Financial Statements . . . .

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors

CRH Medical Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of CRH Medical Corporation (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations and comprehensive income, changes in equity, and cash flows for each of the years in the two year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

Change in Comprehensive Basis of Accounting

As discussed in Note 2 to the consolidated financial statements, the Company changed its comprehensive basis of accounting from International Financial Reporting Standards as issued by the International Accounting Standards Board to U.S. generally accepted accounting principles effective with the preparation of the consolidated financial statements as of and for the year ended December 31, 2018. As a result, U.S. generally accepted accounting principles were applied retrospectively to the balance sheet as of December 31, 2017, the related consolidated statements of operations and comprehensive income, cash flows, and changes in equity for the year ended December 31, 2017, and the related notes.

Change in Accounting Principle

As discussed in Note 3 to the consolidated financial statements, the Company has changed its accounting policies for revenue recognition as of January 1, 2018 due to the adoption of ASC 606 — Revenue from Contracts with Customers.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP
We have served as the Company’s auditor since 2008.
Vancouver, Canada

March 13, 2019

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of CRH Medical Corporation are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with United States Generally Accepted Accounting Principles, and where appropriate, reflect management's best estimates and assumptions based upon information available at the time that these estimates and assumptions were made.

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

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors exercises this responsibility principally through the Audit Committee. The Audit Committee consists of directors not involved in the daily operations of the Company. The Audit Committee is responsible for engaging the external auditor and meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.

The Company's external auditors, who are appointed by the shareholders, conducted an independent audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) and express their opinion thereon.

Chief Executive Officer
(signed) "Edward Wright"

March 13, 2019

Chief Financial Officer
(signed) "Richard Bear"

March 13, 2019

CRH MEDICAL CORPORATION

Consolidated Balance Sheets
(Expressed in United States dollars)

As at December 31, 2018 and 2017

	Note	2018	2017
Assets			
Current assets:			
Cash and cash equivalents		$ 9,946,945	$ 12,486,884
Trade and other receivables, net	5	19,467,803	15,486,312
Income tax receivable		2,243,319	374,943
Prepaid expenses and deposits		822,119	889,882
Inventories		402,544	423,445
		32,882,730	29,661,466
Non-current assets:			
Property and equipment, net	7	303,291	364,366
Intangible assets, net	8	179,384,263	170,127,415
Deferred asset acquisition costs		116,025	—
Deferred tax assets	11	6,301,687	3,802,258
		186,105,266	174,294,039
Total assets		$218,987,996	$203,955,505
Liabilities			
Current liabilities:			
Trade and other payables	6	$ 5,763,222	$ 5,661,844
Employee benefits		827,436	500,754
Notes payable and bank indebtedness	9	2,239,637	989,637
Deferred consideration		1,043,645	906,956
Earn-out obligation	13	2,920,583	—
Short-term advances		26,783	—
Member loan		49,000	435,000
		12,870,306	8,494,191
Non-current liabilities:			
Deferred consideration		1,183,092	2,226,737
Notes payable and bank indebtedness	9	67,621,470	60,061,105
Earn-out obligation	13	—	1,875,427
Deferred tax liabilities	11	21,951	—
		68,826,513	64,163,269
Equity			
Common stock, no par value; 72,055,688 and 73,018,588 shares issued and outstanding at December 31, 2018 and 2017, respectively	10	55,372,884	54,614,601
Additional paid-in capital		9,329,335	8,219,760
Accumulated other comprehensive income (loss)		(66,772)	(66,772)
Retained earnings		12,916,565	11,078,608
Total equity attributable to shareholders of the Company		77,552,012	73,846,197
Non-controlling interest		59,739,165	57,451,848
Total equity		137,291,177	131,298,045
Total liabilities and equity		$218,987,996	$203,955,505

See accompanying notes to consolidated financial statements.

Subsequent event (note 17)

Commitments and contingencies (note 14)

Approved on behalf of the Board:

(signed) "Edward Wright" Director
Edward Wright

(signed) "Anthony Holler" Director
Anthony Holler

CRH MEDICAL CORPORATION

Consolidated Statements of Operations and Comprehensive Income
(Expressed in United States dollars, except for number of shares)

Years ended December 31, 2018 and 2017

	Notes	2018	2017
Revenue:			
Anesthesia services	16	$101,790,165	$ 83,505,140
Product sales	16	10,959,215	11,501,005
		112,749,380	95,006,145
Expenses:			
Anesthesia services expense		81,079,150	62,135,447
Product sales expense		5,022,737	4,997,550
Corporate expense		6,352,363	7,053,863
		92,454,250	74,186,860
Operating income		20,295,130	20,819,285
Finance income	12	—	(11,825,256)
Finance expense	12	4,567,327	6,310,406
		4,567,327	(5,514,850)
Income before tax		15,727,803	26,334,135
Income tax expense	11	2,711,886	7,159,065
Net and comprehensive income		$ 13,015,917	$ 19,175,070
Attributable to:			
Shareholders of the Company		$ 4,679,921	$ 12,078,853
Non-controlling interest		8,335,996	7,096,217
		$ 13,015,917	$ 19,175,070
Earnings per share attributable to shareholders			
Basic	10(f)	$ 0.064	$ 0.164
Diluted	10(f)	$ 0.063	$ 0.161
Weighted average shares outstanding:			
Basic	10(f)	72,582,733	73,712,670
Diluted	10(f)	74,085,172	75,056,003

See accompanying notes to consolidated financial statements.

CRH MEDICAL CORPORATION

Consolidated Statements of Changes in Equity
(Expressed in United States dollars, except for number of shares)

For the years ended December 31, 2018 and 2017

	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, 2017	72,745,939	$52,706,484	$ 6,987,072	$(66,772)	$ 881,695	$ 36,410,456	$ 96,918,935
Total net and comprehensive income for the year	—	—	—	—	12,078,853	7,096,217	19,175,070
Stock-based compensation	—	—	4,036,070	—	—	—	4,036,070
Common shares purchased on exercise of options	247,500	218,436	(65,410)	—	—	—	153,026
Common shares issued on vesting of share units	1,292,549	2,670,951	(2,737,972)	—	—	—	(67,021)
Common shares repurchased in connection with normal course issuer bid and cancelled (note 10(e))	(1,267,400)	(928,244)	—	—	(1,780,244)	—	(2,708,488)
Common shares repurchased in connection with normal course issuer bid and held as treasury shares (72,400 treasury shares) (note 10(e))	—	(53,026)	—	—	(101,696)	—	(154,722)
Distributions to members	—	—	—	—	—	(12,899,353)	(12,899,353)
Acquisition of non-controlling interest (note 4)	—	—	—	—	—	26,844,528	26,844,528
Balance as at December 31, 2017	73,018,588	$54,614,601	$ 8,219,760	$(66,772)	$11,078,608	$ 57,451,848	$131,298,045
Total net and comprehensive income for the year	—	—	—	—	4,679,921	8,335,996	13,015,917
Stock based compensation expense	—	—	2,800,750	—	—	—	2,800,750
Common shares issued on vesting of share units	364,000	1,691,175	(1,691,175)	—	—	—	—
Common shares repurchased in connection with normal course issuer bid and cancelled (note 10(e))	(1,254,500)	(925,076)	—	—	(2,818,472)	—	(3,743,548)
Common shares repurchased in connection with normal course issuer bid and held as treasury shares (10,400 treasury shares) (note 10(e))	—	(7,816)	—	—	(23,492)	—	(31,308)
Cancellation of treasury shares (held as treasury shares as of 12/31/2017)	(72,400)	—	—	—	—	—	—
Distributions to members	—	—	—	—	—	(19,289,740)	(19,289,740)
Acquisition of non-controlling interest (note 4)	—	—	—	—	—	13,241,061	13,241,061
Balance as at December 31, 2018	72,055,688	$55,372,884	$ 9,329,335	$(66,772)	$12,916,565	$ 59,739,165	$137,291,177

See accompanying notes to consolidated financial statements.

CRH MEDICAL CORPORATION

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

For the years ended December 31, 2018 and 2017

	Notes	2018	2017
Operating activities:			
Net income		$ 13,015,917	$ 19,175,070
Adjustments for:			
Depreciation of property, equipment and intangibles		31,486,055	23,834,400
Stock-based compensation		2,800,750	4,036,070
Unrealized foreign exchange		(4,494)	73,735
Deferred income tax expense (recovery)		(2,407,176)	2,755,707
Change in fair value of contingent consideration		971,627	(11,825,256)
Accretion on contingent consideration and deferred consideration		166,575	600,602
Amortization of deferred financing fees		260,363	204,057
Loss on extinguishment of debt		—	1,408,221
Change in current tax receivable (payable)		(1,936,436)	(1,106,541)
Change in trade and other receivables		(3,981,491)	(5,649,573)
Change in prepaid expenses		171,911	(339,071)
Change in inventories		20,902	(122,685)
Change in trade and other payables		101,379	2,432,159
Change in employee benefits		326,681	273,880
Cash provided by operating activities		40,992,563	35,750,775
Financing activities			
Proceeds from member loans		303,351	566,819
Repayment of member loans		(662,568)	(131,819)
Repayment of notes payable and bank indebtedness		(14,250,000)	(52,543,750)
Proceeds on bank indebtedness		22,800,000	68,200,000
Payment of deferred consideration		(1,000,000)	(900,000)
Distributions to non-controlling interest		(19,289,740)	(12,899,353)
Proceeds on settlement of derivative asset		—	1,313,874
Proceeds from the issuance of shares relating to stock-based compensation		—	(6,626)
Repurchase of shares for cancellation	10(e)	(3,774,856)	(2,863,210)
Cash (used in) provided by financing activities		(15,873,813)	735,935
Investing activities			
Acquisition of property and equipment		(35,105)	(125,285)
Deferred asset acquisition costs		(116,025)	—
Acquisition of anesthesia services providers	4	(27,509,811)	(33,376,849)
Cash used in investing activities		(27,660,941)	(33,502,134)
Effects of foreign exchange on cash and cash equivalents		2,252	(4,696)
Increase (decrease) in cash and cash equivalents		(2,539,939)	2,979,880
Cash and cash equivalents, beginning of year		12,486,884	9,507,004
Cash and cash equivalents, end of year		$ 9,946,945	$ 12,486,884
Supplemental disclosure of cash interest and taxes paid:			
Cash interest paid		$ (3,180,808)	$ (3,563,837)
Taxes paid		$ (7,055,498)	$ (5,509,915)

See accompanying notes to consolidated financial statements.

1. Reporting entity:

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 578, 999 Canada Place, Vancouver, British Columbia, Canada.

2. Basis of preparation:

(a) Change in basis of presentation:

As a non-U.S. company listed on the NYSE, the United States Securities and Exchange Commission ("SEC") requires us to perform a test on the last business day of the second quarter of each fiscal year to determine whether we continue to meet the definition of a foreign private issuer ("FPI"). Historically, we met the definition of an FPI, and as such, prepared consolidated financial statements in accordance with IFRS, reported with the SEC on FPI forms, and complied with SEC rules and regulations applicable to FPIs.

On June 30, 2018, we performed the test and determined that we no longer met the definition of a FPI. As such, from January 1, 2019, the Company is required to prepare consolidated financial statements in accordance with United States Generally Accepted Accounting Principles ("US GAAP"), report with the SEC on domestic forms, and comply with SEC rules and regulations applicable to domestic issuers.

These consolidated financial statements have been prepared in accordance with US GAAP beginning December 31, 2018 on a retrospective basis. The Company's historical financial statements were previously presented under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) up to and including the Company's September 30, 2018 interim report.

(b) Functional and presentation currency:

These consolidated financial statements are presented in United States dollars, which is the Company's presentation currency. The functional currency of the Company and its subsidiaries is the United States dollar.

(c) Use of estimates, assumptions and judgments:

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

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.

2. Basis of preparation (continued):

(c) Use of estimates, assumptions and judgments (continued):

(*i*) Use of estimates and assumptions:

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

Significant areas requiring the use of management estimates relate to the assessment for impairment and useful lives of intangible assets, determining the fair value of share units and derivatives, estimates supporting reported anesthesia revenues, the recoverability of trade receivables, the valuation of certain long term liabilities and other assets, including liabilities relating to contingent consideration, the vesting term for share units with market and non-market based performance targets, the valuation of acquired intangibles, the valuation of deferred tax assets.

(*ii*) Judgments:

Significant judgments made by management in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements includes the determination of control for the purposes of consolidation and the Company's assessment of whether an acquisition is a business acquisition or an asset acquisition.

3. Significant accounting policies:

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

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company through voting control and for 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 polices 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 in consolidation.

(b) Cash equivalents

The Company considers all highly liquid investments with an original maturity of 90 days or less, when acquired, to be cash equivalents.

(c) Foreign currency:

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

Period end balances of monetary assets and liabilities in foreign currency are translated to the respective functional currencies using period end foreign currency rates. Foreign currency gains and

3. Significant accounting policies (continued):

(c) Foreign currency (continued):

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

(d) Inventories:

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

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

(e) Property and equipment, net:

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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

Asset	Basis	Rate
Computer equipment	Declining balance	30%
Computer software	Declining balance	100%
Furniture and equipment	Declining balance	20%
Leasehold improvements	Straight-line	Shorter of initial lease term or useful life
Injection mold	Straight-line	5 years

These depreciation methods most closely reflect the expected pattern of consumption of the future economic benefits embodied in the asset.

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

3. Significant accounting policies (continued):

(f) 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

(g) Impairment:

Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there are any events or changes in circumstances indicated that the carrying value may not be recoverable. Example factors that could trigger impairment reviews include significant underperformance relative to historical or projected future operating results, significant changes in the use of the acquired assets or strategy for the overall business and significant negative economic trends. Depending on the specific asset and circumstances, assets are assessed for impairment as an individual asset, as part of an asset group or at the reporting unit (RU") level. A reporting unit is an operating segment or one level below an operating segment if certain conditions are met. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows from other assets or groups of assets.

If indicators of impairment exist, an asset or asset group is impaired if its carrying amount exceeds its fair value, being the projected future discounted cash flows that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset or asset group. Projected cash flows are based upon historical results adjusted to reflect management's best estimate of future market and operating conditions which may differ from actual cash flows. Significant assumptions included in projected cash flows include anesthesia revenue growth rates, discount rates, and operating cost growth rates.

(h) Income taxes:

The Company is subject to income taxes in Canada and the United States. Judgment is required in determining the provision for income taxes and income tax assets and liabilities, including evaluating uncertainties in the application of accounting principles and complex tax laws.

3. Significant accounting policies (continued):

(h) Income taxes (continued):

The Company records a provision for income taxes for the anticipated tax consequences of the reported results of operations using the asset and liability method. Under this method, it recognizes deferred income tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. The Company recognizes the deferred income tax effects of a change in tax rates in the period of the enactment. The Company records a valuation allowance to reduce its deferred tax assets to the net amount that management believes is more likely than not to be realized. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than fifty percent likely of being realized. The Company records interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

Income tax expense is comprised of current and deferred tax.

(i) Share-based compensation:

The Company records share-based compensation related to equity classified stock options and share units granted using the fair value based method estimated using either the Black-Scholes model or Binomial method. The vesting components of graded vesting employee awards, with only a service vesting condition, are accounted for as separate share-based arrangements. Each vesting installment is measured separately and expensed over the related installment's vesting period. Compensation cost is measured at fair value at the date of grant and expensed as employee benefits over the period in which employees unconditionally become entitled to the award. Forfeitures are estimated in recognizing share-based compensation, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Prior to January 1, 2018, each vesting tranche of equity classified non-employee awards were remeasured each reporting period at the award's fair value each reporting period with a final measurement date of each vesting date of each vesting tranche. Post vesting, if continued services are not required, the award would become subject to other standards. Starting January 1, 2018, the accounting standards for non-employee awards were amended by ASU 2018-07 (note 3 p(v)).

(j) Share capital:

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

(k) Earnings per share:

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the net income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held, if applicable. Diluted EPS is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding,

3. Significant accounting policies (continued):

(k) Earnings per share (continued):

adjusted for own shares held if applicable, for the effects of all dilutive potential common shares. Diluted EPS for year-to-date (including annual) periods is based on the weighted average of the incremental shares included in each interim period for the year-to-date period.

(l) Segment reporting:

The Company's operating segments consist of the sale of medical products and the provision of anesthesia services.

(m) Finance costs:

Finance cost is primarily comprised of interest on the Company's notes payable and bank indebtedness and also includes the amortization of costs incurred to obtain loan financing and any fees in respect of arranging loan financing. Deferred finance costs are amortized using the effective interest method over the term of the related loan financing. Deferred finance costs are presented as a reduction to the related liability.

(n) Asset acquisitions:

Asset acquisitions are accounted for using the cost accumulation and allocation method. The acquisition cost includes directly related acquisition costs. The cost of the acquisition is allocated to the net assets acquired on a relative fair value basis.

Contingent consideration, where the arrangement is not a derivative, is recognized when it is probable and estimable. After the initial acquisition accounting, changes in contingent and deferred consideration are recorded within finance (income) expense.

The Company's policy is to recognize any non-controlling interest on consolidation either at fair value of the non-controlling interest or at the fair value of the proportionate share of the net assets acquired.

(o) Revenue recognition:

Our anesthesia service revenues are derived from anesthesia procedures performed under our professional services agreements. The fees for such services are billed either to a third party payor, including Medicare or Medicaid or to the patient. We recognize anesthesia service revenues, net of contractual adjustments and implicit price concessions, which we estimate based on the historical trend of our cash collections and contractual adjustments.

Anesthesia services procedures for each patient qualify as a distinct service obligation, as they are provided simultaneously with other readily available resources during the service procedure. The transaction price is variable and not constrained. Variable consideration relates to contractual allowances, credit provisions and other discounts. The standard requires management to estimate the transaction price, including any implicit concessions from the credit approval process. The Company adopted a portfolio approach to estimate variable consideration transaction price by payor type (patient, government and/or insurer) and the specifics of the services being provided. These portfolios share characteristics such that the results of applying a portfolio approach are not materially different than if the standard was applied to individual patient contracts. Revenue is recognized upon completion of the services to the customer (patient) for practical reasons as the service period is performed over a short time period.

3. Significant accounting policies (continued):

(o) Revenue recognition (continued):

The Company recognizes revenue from product sales at the time the product is shipped, which is when title passes to the customer, and when all significant contractual obligations have been satisfied, collection is probable and the amount of revenue can be estimated reliably.

Product sales contracts generally contain a single distinct performance obligation, but multiple performance obligations may exist when multiple product types are ordered by a physician in a contract. The transaction price for product sales is fixed and no variable consideration exists. Contract consideration is allocated to each distinct performance obligation in the contract based upon available stand-alone selling prices obtained from historical sales transactions for each product. The Company recognizes revenue from product sales at the point in time when control of the goods passes to the customer (physician) when the product is shipped, which is when title passes to the customer and an obligation to pay for the goods arises. Shipping services performed after control has passed to the customer, if any, is a separate performance obligation, but was determined to be nominal.

(p) Adoption of new accounting standards:

i) Revenue from Contracts with Customers

This standard establishes a comprehensive framework for determining whether, how much and when revenue is recognized. The Company adopted the standard effective January 1, 2018 applying the full retrospective method, resulting with the standard being applied to the prior reporting period with a cumulative effect of adjustment, if any, recognized as at January 1, 2017.

The Company has elected to make use of the following practical expedients:

- incremental costs of obtaining a contract are recognized as an expense when incurred because the amortization period of the asset that the Company otherwise would have recognized is one year or less; and
- the promised amount of consideration has not been adjusted for the effects of a significant financing component because, at contract inception, the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

The adoption of this standard did not have a material impact on the results of operations or cash flows and there was no adjustment to retained earnings as at January 1, 2017. However, the standard did require the Company's provision for net uncollectable accounts, previously recognized as bad debt expense in anesthesia services expenses, to be recognized as a reduction to anesthesia service revenues. There was no impact to the Company's other operating segments. For the year ended December 31, 2017, the adoption of the standard resulted in a reduction of anesthesia services revenue and a similar reduction of anesthesia services expenses of $5,235,934.

ii) Financial Instruments – Overall

In January 2016, FASB issued ASU No. 2016-01, "*Financial Instruments – Overall*," which requires equity investments, not subject to consolidation or equity accounting, to be measured at fair value at fair value and fair value through profit and loss subsequently, unless a practical exception applies. This update did not change the classification and measurement of investments in debt securities and loans.

3. Significant accounting policies (continued):

(p) Adoption of new accounting standards (continued):

ii) Financial Instruments – Overall (continued)

This standard was effective January 1, 2018 and it had no impact on the Company's balance sheet, results of operations or cash flows.

iii) Employee Share-based Payments

In March 2016, FASB issued ASU No. 2016-09, "*Improvements to Employee Share-Based Payment Accounting*", which requires companies to recognize the income tax effects of awards in the income statement when awards vest or are settled. The Company adopted the standard effective January 1, 2017, with no cumulative transition impact. The Company recognized a tax recovery of $952,495 related to awards that were either exercised or vested during the year ended December 31, 2017.

iv) Clarifying the Definition of a Business

In January 2017, FASB issued ASU No. 2017-01, "*Business Combinations (Topic 805) – Clarifying the Definition of a Business"*, which changes the definition of a business to assist entities with evaluating when a set of transferred assets is a Business and business acquisition or an asset acquisition. This guidance requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. This guidance is effective for annual periods beginning after December 15, 2017 and can be early adopted in certain situations and is applied prospectively to acquisitions after the effective date of adoption only. The Company early adopted this standard and concluded that all previously reported business combinations in 2017 would be asset acquisitions under this new guidance. The change in classification to asset acquisitions resulted in an increase to the cost allocation to PSA intangible assets due to the capitalization of acquisition costs of $223,581. As a result, anesthesia services expenses reduced by $194,326 for the year ended December 31, 2017 and the net allocation to PSA intangible asset, minority interest and retained earnings increased by $381,794, $173,194 and $14,274, respectively, as at December 31, 2017.

v) Nonemployee Share-Based Payment Accounting

In June 2018, FASB issued ASU No. 2018-07, "*Compensation – Stock Compensation (Topic 718) – Improvements to Non-Employee Share-based Payment Accounting*", which is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. This ASU substantially aligns non-employee award accounting with employee awards accounting under ASC 718, with the exception of attribution of compensation costs and certain inputs used to value non-employee awards. Vested non-employee awards will continued to be accounted under ASC 718 unless they are modified after the non-employee stops providing goods and services. The ASU is applied to unsettled liability awards and equity classified awards for which a measurement date has not been established only at the effective adoption date using the modified retrospective method. This standard is effective for fiscal years beginning after December 15, 2018, but may be early adopted. The Company adopted this ASU on January 1, 2018 and it had no impact on the Company's balance sheet, results of operations or cash flows.

3. Significant accounting policies (continued):

(q) New standards and interpretations not yet applied:

(i) ASU 2016-02 *Leases*

In February 2016, FASB issued ASU No. 2016-02 "*Leases*", and subsequently ASU No. 2017-13, establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard requires lessees to recognize most leases on the balance sheet and certain limited changes to lessor accounting. The standard is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The standard requires a modified retrospective application to all leases outstanding at, or entered into after the date of initial application, with options to use various transitional relief. The Company plans to adopt the standard effective January 1, 2019 and expects nearly all operating classified leases to also be classified as operating leases under this new standard with a right-of-use asset and a corresponding obligation recognized on the balance sheet at the adoption date. The lease obligation is measured at amortized cost using the effective interest method. The Company will apply the exemption to treat short-term leases as executory contracts. The Company has evaluated the impact of this standard and determined that the impact from this ASU on its consolidated balance sheet, results of operations and cash flows is not material at January 1, 2019.

(ii) Credit Losses

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 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 after December 15, 2019, but may be early adopted by the Company on January 1, 2019.

The Company is in the process of evaluating the impact of this standard on its balance sheet, results of operations and cash flows.

4. Asset acquisitions:

During the year ended December 31, 2018, the Company completed five asset acquisitions. These asset acquisitions have been included in the anesthesia segment of the Company and represents the following:

Acquired Operation	Date Acquired	Consideration
Shreveport Sedation Associates LLC ("SSA")	March 2018	$9,495,184
Western Ohio Sedation Associates LLC ("WOSA")	May 2018	$6,483,698
Lake Washington Anesthesia LLC ("LWA")	July 2018	$5,041,939
Lake Erie Sedation Associates LLC ("LESA")	September 2018	$4,233,115
Tennessee Valley Anesthesia Associates LLC ("TVAA")	December 2018	$2,255,875

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.

4. Asset acquisitions (continued):

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.

	SSA	WOSA	LWA	LESA	TVAA	Total
Cash	$9,404,148	$ 6,409,000	$5,000,000	$4,180,000	$2,200,000	$27,193,148
Acquisition Costs	91,036	74,698	41,939	53,115	55,875	316,663
Purchase consideration	$9,495,184	$ 6,483,698	$5,041,939	$4,233,115	$2,255,875	$27,509,811
Non-controlling interest	$ —	$ 6,229,435	$4,844,217	$ —	$2,167,409	$13,241,061
	$9,495,184	$12,713,133	$9,886,156	$4,233,115	$4,423,284	$40,750,872
Assets and liabilities acquired:						
Exclusive professional services agreements	$9,391,036	$12,713,133	$9,886,155	$4,233,115	$4,423,284	$40,646,723
Prepaid expenses and deposits	104,149	—	—	—		104,149
Pre-close accounts receivable	—	—	652,506	—		652,506
Pre-close accounts payable	—	—	(652,506)	—		(652,506)
Fair value of net identifiable assets and liabilities acquired	$9,495,185	$12,713,133	$9,886,155	$4,233,115	$4,423,284	$40,750,872
Exclusive professional services agreements – amortization term	7 years	10 years	7 years	10 years	7 years	
CRH ownership interest	100%	51%	51%	100%	51%	

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.

The Company has obtained control over the acquired assets via the Company's majority ownership in the shares of the entities and its agreements with the non-controlling interest shareholders.

4. Asset acquisitions (continued):

For those asset acquisitions where CRH ownership interest is less than 100%, in conjunction with the acquisition, both the Company and the non-controlling interest shareholder contributed loans. The terms of the loans are such that they will be repaid first, prior to any future distributions and are non-interest bearing.

	SSA	WOSA	LWA	LESA	TVAA	Total
CRH member loan	$ —	$193,800	$ —	$ —	$ 51,000	$244,800
Non-controlling interest member loan	$ —	$186,200	$ —	$ —	$ 49,000	$235,200
Amount outstanding at December 31, 2018	$ —	$ —	$ —	$ —	$100,000	$100,000

In conjunction with the LWA acquisition, the non-controlling interest shareholder of LWA provided a working capital advance to LWA totaling $254,351 at July 1, 2018. The balance of the advance at December 31, 2018 is $26,783.

The Company also incurred legal costs of $116,025 associated with its acquisition of the assets of Anesthesia Care Associates, LLC (“ACA”) which closed subsequent to December 31, 2018 (see note 17). These costs are deferred as of December 31, 2018 on the statements of financial position.

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 is a 15% equity owner in the anesthesia business, Triad Sedation Associates LLC, and receives compensation for its billing and collection services. Under the terms of the limited liability company agreement, CRH has 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 CRH does not have significance influence over TSA. 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 and as at December 31, 2018.

During the year ended December 31, 2017, the Company completed six asset acquisitions. All asset acquisitions completed during the period have been included in the anesthesia segment of the Company and include the following:

Acquired Operation	Date Acquired	Consideration
DDAB, LLC (“DDAB”)	February 2017	$5,278,940
Osceola Gastroenterology Anesthesia Associates, LLC (“OGAA”)	March 2017	$3,452,247
West Florida Anesthesia Associates, LLC (“WFAA”)	August 2017	$5,904,980
Central Colorado Anesthesia Associates, LLC (“CCAA”)	September 2017	$7,909,243
Raleigh Sedation Associates, LLC & Blue Ridge Sedation Associates, PLLC (“RSA”)	September 2017	$7,328,060
Alamo Sedation Associates, LLC (“ASA”)	September 2017	$3,503,379

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.

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

Years ended December 31, 2018 and 2017

4. Asset acquisitions (continued):

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.

	DDAB	OGAA	WFAA	CCAA	RSA	ASA	Total
Cash and acquisition costs	$ 4,089,791	$3,401,819	$ 5,840,000	$ 7,888,919	$ 7,248,960	$3,500,000	$31,969,489
Acquisition costs	5,370	50,428	64,980	20,324	79,100	3,379	223,581
Contingent consideration	1,183,779	—	—	—	—	—	1,183,779
Purchase consideration	$ 5,278,940	$3,452,247	$ 5,904,980	$ 7,909,243	$ 7,328,060	$3,503,379	33,376,849
Non-controlling interest	5,071,922	2,301,498	4,831,346	7,599,077	7,040,685	—	26,844,528
	$10,350,862	$5,753,745	$10,736,326	$15,508,320	$14,368,745	$3,503,379	$60,221,377
Assets and liabilities acquired:							
Exclusive professional services agreements	10,350,862	$5,753,745	$10,724,338	$15,508,320	$14,368,745	$3,503,379	$60,209,389
Pre-close trade receivables	525,000	—	—	—	—	—	525,000
Pre-close trade payables	(525,000)	—	—	—	—	—	(525,000)
Prepaid expenses and deposits	—	—	11,988	—	—	—	11,988
Fair value of net identifiable assets and liabilities acquired	$10,350,862	$5,753,745	$10,736,326	$15,508,320	$14,368,745	$3,503,379	$60,221,377
Exclusive professional services agreements – amortization term	4.5 years	5 years	15 years	7 years	5 years	7 years	
CRH ownership interest	51%	60%	55%	51%	51%	100%	

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 terms for the agreements are based upon contractual terms within the acquisition agreements and professional services agreements.

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

The Company has obtained control over the acquired assets via the Company's majority ownership in the shares of the entities and its agreements with the non-recurring interest shareholders.

4. Asset acquisitions (continued):

For those asset acquisitions where CRH ownership interest is less than 100%, in conjunction with the acquisition, both the Company and the non-controlling interest shareholder contributed loans. The terms of the loans are such that they will be repaid first, prior to any future distributions and are non-interest bearing.

	DDAB	OGAA	WFAA	CCAA	RSA	ASA	Total
CRH member loan	$ —	$90,000	$82,500	$178,500	$204,000	$ —	$555,000
Non-controlling interest member loan	$ —	$60,000	$67,500	$171,500	$196,000	$ —	$495,000
Amount outstanding at December 31, 2018	$ —	$ —	$ —	$ —	$ —	$ —	$ —

In conjunction with the acquisition, the non-controlling interest shareholder of DDAB provided a working capital advance to DDAB totaling $71,819 at March 31, 2017. The working capital advance was repaid as of December 31, 2017.

5. Trade and other receivables:

	2018	2017
Trade receivables, gross	$19,373,260	$15,325,553
Other receivables	141,141	260,759
Less: allowance for doubtful accounts	(46,598)	(100,000)
	$19,467,803	$15,486,312
Anesthesia segment – trade receivables, gross	18,199,847	13,405,303
Product segment – trade receivables, gross	1,173,413	1,920,250
	$19,373,260	$15,325,553

6. Trade and other payables:

	2018	2017
Trade payables	$1,316,821	$2,042,487
Payments due to former owners of acquired entities	—	76,403
Accruals and other payables	4,446,401	3,542,954
	$5,763,222	$5,661,844

7. Property and equipment:

Property and equipment consist of the following:

	December 31, 2018	December 31, 2017
Computer equipment and software	$ 94,566	$ 82,055
Furniture and equipment	237,616	215,021
Leasehold improvements	5,784	5,784
Injection mold	408,062	408,062
Property and equipment	$ 746,028	$ 710,922
Less: Accumulated depreciation	(442,737)	(346,556)
Property and equipment, net	$ 303,291	$ 364,366

8. Intangible assets:

	Professional Services Agreements	Patents	Total
Cost			
Balance as at January 1, 2017	155,635,148	532,598	156,167,746
Additions through asset acquisitions (note 4)	60,209,389	—	60,209,389
Balance as at December 31, 2017	$215,844,537	$532,598	$216,377,135
Additions through asset acquisitions (note 4)	40,646,723	—	40,646,723
Balance as at December 31, 2018	$256,491,260	$532,598	$257,023,858

	Professional Services Agreements	Patents	Total
Accumulated depreciation			
Balance as at January 1, 2017	21,999,771	500,664	22,500,435
Amortization expense	23,752,532	(3,247)	23,749,285
Balance as at December 31, 2017	$45,752,303	$497,417	$46,249,720
Amortization expense	31,387,429	2,446	31,389,875
Balance as at December 31, 2018	$77,139,732	$499,863	$77,639,595

	Professional Services Agreements	Patents	Total
Net book value			
December 31, 2018	$179,351,528	$32,735	$179,384,263
December 31, 2017	$170,092,234	$35,181	$170,127,415

At December 31, 2018, the Company identified indicators of impairment in respect of four 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.

8. Intangible assets (continued):

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, 2018. The income approach is used for the quantitative assessment to estimate the fair value of the assets, which requires estimating future cash flows and risk-adjusted discount rates 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, discount rates and operating cost growth rates. Due to uncertainties in the estimates that are inherent to the Company's industry, 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 a result of this test, no write-downs to the intangible assets were required.

At December 31, 2017, the Company identified indicators of impairment in respect of two of its professional services agreements. Upon performing undiscounted cash flow models for these assets, no impairment was indicated.

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 4 years. The Company anticipates that it will be able to renew all contract terms under its professional services agreements. The weighted average remaining amortization period for the Company's professional services agreements is 6.23 years.

Based on the Company's professional services agreements in place at December 31, 2018, 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 December 31, 2018:	
2019	$ 33,674,000
2020	33,593,000
2021	28,287,000
2022	21,565,000
2023	17,419,000
	$134,538,000

9. Notes payable:

	December 31, 2018	December 31, 2017
Current portion	$ 2,239,637	$ 989,637
Non-current portion	67,621,470	60,061,105
Total loans and borrowings	$69,861,107	$61,050,742

9. Notes payable (continued):

The Bank of Nova Scotia ("Scotia Facility")

On November 24, 2015, the Company entered into a credit facility with the Bank of Nova Scotia. The facility, which had a maturity date of April 30, 2018, provided financing of up to $55,000,000, after amendment on June 15, 2016.

On June 26, 2017, the Company amended the Scotia Facility to provide financing of up to $100,000,000 via a revolving and term facility. The amended facility has a maturity date of June 26, 2020. In conjunction with this amendment, the Company incurred fees of $445,598 which were capitalized. As at December 31, 2018, the Company had drawn $70,250,000 on the amended facility (2017 – $61,700,000). Since there was no reduction in borrowing capacity as a result of this amendment, no existing deferred or new financing fees were expensed upon this modification. The Facility is repayable in full at maturity, with scheduled principal repayments on a quarterly basis beginning September 30, 2017 based on the initial principal issued under the term facility. The facility bears interest at a floating rate based on the US prime rate, LIBOR or bankers' acceptance rates plus an applicable margin. At December 31, 2018, interest on the facility is calculated at LIBOR plus 2.50% on the revolving portion and term portion of the facility. The Facility is secured by the assets of the Company. As at December 31, 2018 the Company is required to maintain the following financial covenants in respect of the Facility:

Financial Covenant	Required Ratio
Total funded debt ratio	2.50:1.00
Fixed charge coverage ratio	1.15:1.00

The Company is in compliance with all covenants at December 31, 2018.

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

	Minimum Principal
At December 31, 2018	
2019	$ 2,500,000
2020	67,750,000
	$70,250,000

10. 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 16(e)), there were no share transactions in the years ended December 31, 2018 and 2017.

10. Share capital (continued):

(c) Stock option plan:

Under the Company's Stock Option Plan, the Company may grant options to its directors, officers, consultants and eligible employees. The plan provides for the granting of stock options at the fair market value of the Company's stock at the date of grant, and the term of options range from two to ten years. The Board of Directors may, in its sole discretion, determine the time during which options shall vest and the method of vesting. All options under the Plan will be subject to vesting provisions determined by the Board of Directors, over a period of not less than 18 months, in equal portions on a quarterly basis. Options granted to consultants providing investor relations activities will vest at the end of 12 months or longer from the date of issuance. As of December 31, 2018, the Company is authorized to grant 2,258,097 awards under its stock options plan, but has chosen not to issue further awards under its stock option plan. A summary of the status of the plan as of December 31, 2018 and 2017 is as follows (options are granted in CAD and USD amounts are calculated using prevailing exchange rates):

	Number of options	Weighted average exercise price	
		CAD	USD
Outstanding, January 1, 2017	1,603,124	$0.63	$0.47
Issued	—	—	—
Exercised	(247,500)	0.32	0.25
Forfeited	(10,937)	0.60	0.48
Expired	—	—	—
Outstanding, December 31, 2017	1,344,687	0.69	0.55
Issued	—	—	—
Exercised	—	—	—
Forfeited	—	—	—
Expired	—	—	—
Outstanding, December 31, 2018	1,344,687	0.69	0.50

All options are vested as of December 31, 2018 and 2017.

For those options that vested in 2017, the intrinsic value of the options that vested was $1,198,495 and the fair value of the options that vested was $147,730.

The following table summarizes information about the stock options outstanding as at:

December 31, 2018:

Exercise price		Options outstanding				Options exercisable		
$CAD	$USD	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price ($CAD)	Weighted average exercise price ($USD)	Number of options	Weighted average exercise price ($CAD)	Weighted average exercise price ($USD)
	0.44 – 0.51	1,344,687	5.05	0.69	0.50	1,344,687	0.69	0.50

10. Share capital (continued):

(c) Stock option plan (continued):

All options are vested as of December 31, 2018 and 2017.

December 31, 2017:

Exercise price		Options outstanding				Options exercisable		
$CAD	$USD	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price ($CAD)	Weighted average exercise price ($USD)	Number of options	Weighted average exercise price ($CAD)	Weighted average exercise price ($USD)
0.60 – 0.70	0.48 – 0.56	1,344,687	6.05	0.69	0.55	1,272,812	0.68	0.54

As of December 31, 2017, 1,272,812 options are vested.

For the year ended December 31, 2018, the Company recognized $468 (2017 – $22,179), in compensation expense as a result of stock options awarded and vested. Compensation expense is recorded in the consolidated statement of operations and comprehensive income and is allocated to product sales expenses, corporate expenses and anesthesia expenses on the same basis as the allocations of cash compensation.

(d) Share unit plan:

In June 2017, the shareholders of the Company approved a Share Unit Plan. 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. As at December 31, 2018, the Company is authorized to grant 1,057,534 awards under its share unit plan.

10. Share capital (continued):

(d) Share unit plan (continued):

A summary of the status of the plan as of December 31, 2018 and 2017 is as follows:

	Time based share units	Performance based share units
Outstanding, January 1, 2017	1,068,000	2,350,000
Issued	324,000	—
Exercised	(302,000)	(1,000,000)
Forfeited	(53,500)	—
Expired	—	—
Outstanding, December 31, 2017	1,036,500	1,350,000
Vested	—	—
Expected to vest	1,036,500	1,100,000
Outstanding, January 1, 2018	1,036,500	1,350,000
Issued	452,125	150,000
Exercised	(364,000)	—
Forfeited	(79,375)	—
Expired	—	—
Outstanding, December 31, 2018	1,045,250	1,500,000
Vested	—	—
Expected to vest	1,045,250	1,100,000

	Time based share units	Performance based share units
Outstanding, January 1, 2017	1,036,500	1,350,000
Weighted average contractual life (years)	2.96	8.86
Outstanding, December 31, 2017	1,045,250	1,500,000
Weighted average contractual life (years)	2.74	7.99

During the year ended December 31, 2018, the Company granted 452,125 time based share units and 150,000 performance based share units. The weighted average fair value for the time based units at the date of grant was $3.45 (CAD$4.71) per unit and the weighted average fair value per unit for the performance based share units granted in the in the period was $2.78 (CAD$3.79) per unit. The fair value per unit was based on the market value of the underlying shares at the date of issuance.

During the year ended December 31, 2018, the Company issued 364,000 shares in respect of the 364,000 time-based share units which vested during the year.

During the year ended December 31, 2017, the Company issued 324,000 share units ("Time based share units"). The weighted average fair value per unit was $3.31 (CAD$4.16) based on the market value of the underlying shares at the date of issuance.

During the year ended December 31, 2017, 1,000,000 of those Performance based share units which vest upon the Company meeting certain market-based performance targets vested. Upon vesting, the

10. Share capital (continued):

(d) Share unit plan (continued):

Company issued 1,000,000 common shares. The Company also issued net shares of 292,549 in respect of 302,000 time-based share units which vested during the year.

During the year ended December 31, 2018, the Company recognized $2,800,280 (2017 – $4,013,891), in compensation expense in relation to the granting and vesting of share units.

(e) Normal Course Issuer Bid:

On November 6, 2017, the Board of Directors of the Company approved a normal course issuer bid to purchase outstanding shares of the Company. On November 8, 2018, the Company's normal course issuer bid was renewed. Under the renewed bid, the Company may purchase up to 7,044,410 shares pursuant to the bid, representing no more than 10.0% of the Company's shares outstanding on October 31, 2018. All purchases of shares under the bid are made pursuant to an Automated Share Purchase Plan. Subject to any block purchases made in accordance with the rules of the TSX, the bid is subject to a daily repurchase maximum of 46,958 shares. Shares are purchased at the market price of the shares at the time of purchase and are purchased on behalf of the Company by a registered investment dealer through the facilities of the TSX or alternative Canadian and US marketplaces.

During 2018, the Company repurchased 1,264,900 of its shares for a total cost, including transaction fees, of $3,784,733 (CAD$4,945,155). As at December 31, 2018, 1,254,500 of these shares have been cancelled with the remaining 10,400 shares cancelled on January 4, 2019.

As of December 31, 2017, the Company repurchased 1,339,800 of its shares for a total cost, including transaction fees, of $2,872,713 (CAD$3,669,120). As at December 31, 2017, 1,267,400 of these shares had been cancelled with the remaining 72,400 shares cancelled on January 5, 2018.

(f) Earnings per share:

The calculation of basic earnings per share for the years ended December 31, 2018 and 2017 is as follows:

	2018			2017		
	Net earnings	Weighted average number of common shares outstanding	Per share amount	Net earnings	Weighted average number of common shares outstanding	Per share amount
Net earnings attributable to shareholders:						
Earnings per common share:						
Basic	$4,679,921	72,582,733	$0.064	$12,078,853	73,712,670	$0.164
Share options		1,122,708			925,286	
Share units		379,731			418,047	
Diluted	$4,679,921	74,085,172	$0.063	$12,078,853	75,056,003	$0.161

10. Share capital (continued):

(f) Earnings per share (continued):

For the year ended December 31, 2018, 221,979 options (2017 – 539,624) and 2,095,260 share units (2017 – 2,094,363) 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.

11. Income taxes:

(a) Income tax expense is comprised of the following:

	2018	2017
Current tax expense	$ 5,119,062	$4,403,358
Deferred tax expense (recovery):	(2,407,176)	2,755,707
Total tax expense (recovery)	$ 2,711,886	$7,159,065

The reconciliation of income tax computed at statutory tax rates to income tax expense, using a 27% (2017 – 23%) statutory rate, is:

	2018	2017
Net income before tax – Canada	$ 5,957,089	$10,239,231
Net income before tax – United States	9,770,714	16,094,904
Net income before tax – All jurisdictions	$15,727,803	$26,334,135
Tax expense at statutory income tax rates	$ 4,259,890	$ 6,060,003
Permanent differences	503,964	(513,050)
Income attributable to non-controlling interest	(2,245,809)	(1,571,060)
Foreign income taxed at different rates	(26,042)	1,458,302
Impact of change in tax rates	216,295	1,767,124
Other	3,588	(42,254)
Total tax expense (recovery)	$ 2,711,886	$ 7,159,065

In 2018, the Canadian statutory tax rate increased from 26% to 27% due to a 1% increase in the provincial rate. The Company's statutory tax rate in Canada in 2017 was lower, at 23%, as a result of the IBA patent program in Canada, which was cancelled at the end of 2017.

On December 22, 2017, in the United States the 2017 Tax Cuts and Jobs Act (the 2017 Act) was enacted into law. The 2017 Act contains several key tax provisions, including a reduction of the corporate income tax rate to 21% effective January 1, 2018, among others. At December 31, 2017, the Company's deferred tax balances for its U.S. subsidiaries have been re-measured based on the newly enacted tax rates at which the deferred tax assets and liabilities are expected to reverse in future fiscal years. As a result of tax legislation enacted in the U.S. at the end of 2017, the federal corporate tax rate applicable to years after 2017 was substantially reduced.

11. Income taxes (continued):

(b) Deferred tax assets and liabilities:

The Company had the following deferred tax assets and liabilities resulting from temporary differences recognized for financial statement and income tax purposes.

	2018	2017
Deferred tax assets:		
Property and equipment	$ 356	3,501
Intangible assets	4,752,898	2,448,322
Finance related costs	375,182	472,428
Reserves	—	34,048
Share transaction costs	87,337	196,508
Stock-based compensation	534,926	410,448
Earn-out obligation	732,986	499,052
Deferred tax liabilities:		
Property and equipment	(40,357)	(3,396)
Deferred consideration	(18,388)	(44,255)
Reserves	(55,568)	(41,205)
Unrealized foreign exchange	(20,698)	—
Finance related costs	(68,938)	(173,193)
Net deferred tax asset	$6,279,736	$3,802,258

Deferred tax assets by jurisdiction	2018	2017
Canada:		
Deferred tax asset	$ 87,343	$ 200,009
Deferred tax liability	(109,294)	(173,194)
Net deferred tax asset (liability)	$ (21,951)	$ 26,815
United States:		
Deferred tax asset	$6,396,340	$3,864,298
Deferred tax liability	(94,654)	(88,855)
Net deferred tax asset (liability)	$6,301,687	$3,775,443

The realization of deferred income tax assets is dependent on the generation of sufficient taxable income during future periods in which the temporary differences are expected to revers. If it is more likely than not that all or a portion of deferred tax assets will not be realized, a valuation allowance is provided against such deferred tax assets. In making such determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations.

As at December 31, 2018 and 2017, the Company had no valuation allowance against its deferred income tax assets. The Company currently does not have any unrecognized tax benefits or uncertain tax positions.

The Company currently files income tax returns in Canada and the US, the jurisdiction in which the Company believes that it is subject to tax. Management is not aware of any material income tax

11. Income taxes (continued):

(b) Deferred tax assets and liabilities (continued):

examination currently in progress by any taxing jurisdiction. Tax years ranging from 2016 to 2018 remain subject to Canadian income tax examinations. Tax years ranging from 2015 to 2018 remain subject to U.S. income tax examinations.

12. Net finance expense

Recognized in earnings in the years ended December 31:

	2018	2017
Finance income:		
Foreign exchange gain	$ —	$ —
Net change in fair value of financial liabilities at fair value through earnings (note 13)	—	(11,825,256)
Total finance income	$ —	$(11,825,256)
Finance expense:		
Interest and accretion expense on borrowings	$3,168,762	$ 3,322,321
Accretion expense on earn-out obligation and deferred consideration	166,575	600,602
Amortization of deferred financing fees	260,363	204,057
Net change in fair value of financial liabilities at fair value through earnings	971,627	—
Foreign exchange loss	—	88,084
Extinguishment of notes payable and bank indebtedness	—	2,044,867
Other	—	50,475
Total finance expense	$4,567,327	$ 6,310,406
Net finance (income) expense	$4,567,327	$ (5,514,850)

13. Financial instruments:

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, employee benefit obligations, short term advances, loans, notes payable and bank indebtedness, deferred consideration and the Company's earn-out obligation. The fair values of these financial instruments, except the notes payable balances, the deferred consideration and the earn-out obligation, 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 Scotia Facility, approximates carrying value as it is a floating rate instrument. The Company's deferred consideration was initially measured at fair value and is being accreted to its face value over a period of four years from the acquisition date. The amounts payable as deferred compensation are specified in the acquisition agreement for Austin Gastroenterology Anesthesia Associates LLC, which was acquired in 2016.

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

13. Financial instruments (continued):

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).

Liabilities	**December 31, 2018**	**Level 1**	**Level 2**	**Level 3**
Earn-out obligation	$2,920,583	$—	$—	$2,920,583
Total	$2,920,583	$—	$—	$2,920,583

Liabilities	**December 31, 2017**	**Level 1**	**Level 2**	**Level 3**
Earn-out obligation	$1,875,427	$—	$—	$1,875,427
Total	$1,875,427	$—	$—	$1,875,427

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 business combination, the Company is required to pay consideration contingent on the post-acquisition earnings of the acquired asset. 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 the use of a discount rate appropriate to the Company. The Company evaluates the inputs into the valuation technique at each reporting period. During the year ended December 31, 2018, the Company revised its assumptions underlying the discount rate used in the calculation of the fair value of the earn-out obligation to account for changes in the underlying credit risk of the Company as well as the estimates underlying the amount of payment. The upward adjustment of the discount rate from 3.59% at December 31, 2017 to 4.69% at December 31, 2018 and the amendment of cash outflow estimates underlying the earn-out resulted in an increase of $971,625 to the fair value of the earn-out obligation. The impact of this adjustment was recorded through finance expense in the period.

The fair value measurements are sensitive to the discount rate used in calculating the fair values as well as the probability assessments used. A 1% increase in the discount rate would reduce the fair value of the earn-out obligation by $13,870. During the year ended December 31, 2018, the Company recorded accretion expense of $73,531 (2017 – $473,738), 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:

	Earn-out obligation
Balance as at January 1, 2018	$1,875,427
Payment	—
Recorded in finance expense:	
Accretion expense	73,529
Fair value adjustment	971,627
Balance as at December 31, 2018	$2,920,583

13. Financial instruments (continued):

The Company's financial instruments are exposed to certain financial risks, including credit risk, and market risk.

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, and trade receivables. The carrying amount of the financial assets represents the maximum credit exposure.

The Company limits its exposure to credit risk on cash and cash equivalents by placing these financial instruments with high-credit quality financial institutions and only investing in liquid, investment grade securities.

The Company has a number of individual customers and no one customer represents a concentration of credit risk.

No one customer accounts for more than 10% of the Company's consolidated revenue. The Company establishes a provision for losses on accounts receivable if it is determined that all or part of the outstanding balance is uncollectable. Collectability is reviewed regularly and an allowance is established or adjusted, as necessary, using a combination of the specific identification method, historic collection patterns and existing economic conditions. Estimates of allowances are subject to change as they are impacted by the nature of healthcare collections, which may involve delays and the current uncertainty in the economy.

(b) Market risk:

Market risk is the risk that changes in market prices, such as and interest rates, will affect the Company's income or the value of the financial instruments held.

(*ii*) Interest rate risk:

As at December 31, 2018, the Company's only interest bearing liability is its Scotia Facility. With respect to the Company's Scotia Facility, with all other variables held constant, a 10% point increase in the interest rate would have reduced net income by approximately $295,000 (2017 – $164,000) for the year ended December 31, 2018. There would be an equal and opposite impact on net income with a 10% point decrease.

14. Commitments and contingencies:

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

Less than one year	$364,068
One to three years	229,764
Four to five years	—
Thereafter	—
Total	$593,832

Rent expense for the year ended December 31, 2018 was $227,743 (2017 – $236,455).

(b) The Company is a party to a variety of agreements in the ordinary course of business under which it may be obligated to indemnify third parties with respect to certain matters. These obligations include,

14. Commitments and contingencies (continued):

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.

15. 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 year ended December 31, 2018, the Company made product sales totaling $29,685 (2017 – $39,485) 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. There were no amounts owing by or to this related party as of December 31, 2018 (2017 – $nil).

16. 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 years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Revenue:		
Canada and other	$ 271,803	$ 238,342
United States	112,477,577	94,767,803
Total	$112,749,380	$95,006,145

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.

	2018	2017
Revenue:		
Commercial Insurers	$ 86,992,218	$72,264,107
Federal Insurers	14,246,626	10,568,096
Physicians	10,959,215	11,501,005
Other	551,321	672,937
Total	$112,749,380	$95,006,145

16. Segmented information (continued):

The Company's property and equipment, intangibles, other assets and total assets are located in the following geographic regions as at December 31, 2018 and 2017:

	2018	2017
Property and equipment:		
Canada	$ 276,621	$ 347,676
United States	26,670	16,690
Total	$ 303,291	$ 364,366
Intangible assets:		
Canada	$ 32,735	$ 35,181
United States	179,351,528	170,092,234
Total	$179,384,263	$170,127,415
Total assets:		
Canada	$ 9,293,796	$ 4,595,719
United States	209,694,200	199,359,786
Total	$218,987,996	$203,955,505

The financial measures reviewed by the Company's Chief Operating Decision Maker are presented below for the years ended December 31, 2018 and 2017. The Company does not allocate expenses related to corporate activities. These expenses are presented within "Other" to allow for reconciliation to reported measures.

	2018			
	Anesthesia services	Product sales	Other	Total
Revenue	$101,790,165	$10,959,215	$ —	$112,749,380
Operating costs	81,079,150	5,022,737	6,352,363	92,454,250
Operating income (loss)	$ 20,711,015	$ 5,936,478	$(6,352,363)	$ 20,295,130

	2017			
	Anesthesia services	Product sales	Other	Total
Revenue	$83,505,140	$11,501,005	$ —	$95,006,145
Operating costs	62,135,447	4,997,550	7,053,863	74,186,860
Operating income (loss)	$21,369,693	$ 6,503,455	$(7,053,863)	$20,819,285

16. Segmented information (continued):

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

	2018			
	Anesthesia services	Product sales	Other	Total
Finance income	$ —	$ —	$ —	$ —
Finance expense	1,138,200	—	3,429,127	4,567,327
Depreciation and amortization expense	31,394,245	68,509	23,301	31,486,055

	2017			
	Anesthesia services	Product sales	Other	Total
Finance income	$(11,825,256)	$ —	$ —	$(11,825,256)
Finance expense	600,602	—	5,709,804	6,310,406
Depreciation and amortization expense	23,762,012	56,907	15,481	23,834,400

17. Subsequent event:

On January 1, 2019, a subsidiary of the Company entered into a membership interest purchase agreement to acquire a 100% interest in Anesthesia Care Associates, LLC ("ACA"), a gastroenterology anesthesia services provider in Indiana. The purchase consideration, paid via cash, for the acquisition of the Company's 100% interest was $5,239,003 plus deferred acquisition costs of $116,025. The allocated cost of the exclusive professional service agreement which was acquired as part of this acquisition was $5,355,028.