CRH Medical Corporation

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Year ended December 31, 2019
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**"). This 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 this 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 this 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 this 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 subsidiari*es.

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-four 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

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.

Arapahoe Gastroenterology Anesthesia Associates LLC ("Arapahoe") – April 2019

On April 3, 2019, a subsidiary of the Company entered into a membership interest purchase agreement to purchase the remaining 49% interest in Arapahoe Gastroenterology Anesthesia Associates LLC not held by the Company. The purchase consideration, paid via cash, for the acquisition of the remaining 49% interest was $2,300,000 plus 49% of Arapahoe's working capital as at March 31, 2019. Additionally, the Company also incurred deferred acquisition costs of $26,086.

Appointment of New CEO – April 2019

On April 9, 2019, the Company announced the appointment of Dr. Tushar Ramani as CEO of the Company, replacing outgoing CEO Edward Wright. Dr. Ramani, a 30-year veteran of the anesthesia industry, has also joined the Company's board as a director. Dr. Ramani brings with him extensive experience in both managing and providing healthcare services, growing companies and creating shareholder value.

South Metro Anesthesia Associates LLC ("SMAA") – May 2019

On May 16, 2019, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire a 55% interest in South Metro Anesthesia Associates LLC ("SMAA"), a gastroenterology anesthesia services provider in Georgia. The purchase consideration, paid via cash, for the acquisition of the Company's 55% interest was $1,752,465. The allocated cost of the exclusive professional service agreement which was acquired as part of this acquisition was $3,257,147.

Crystal River Anesthesia Associates LLC ("CRAA") – July 2019

On July 22, 2019, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire a 51% interest in Crystal River Anesthesia Associates LLC ("CRAA"), a gastroenterology anesthesia services provider in Florida. The purchase consideration, paid via cash, for the acquisition of the Company's 51% interest was $2,130,000. The provisional allocated cost of the exclusive professional service agreement which was acquired as part of this acquisition is $4,262,751.

Central Colorado Anesthesia Associates LLC ("CCAA") – August 2019

On August 31, 2019, a subsidiary of the Company entered into a membership interest purchase agreement to purchase the remaining 49% interest in Central Colorado Anesthesia Associates LLC not held by the Company. The purchase consideration, paid via cash, for the acquisition of the remaining 49% interest was $7,000,000 plus 49% of CCAA's working capital as at August 31, 2019. Additionally, the Company also incurred deferred acquisition costs of $18,658.

J.P. Morgan Facility – October 2019

On October 22, 2019, the Company entered into a new, three year revolving credit line which provides up to $200 million in borrowing capacity and represents an increase from the Company's previous $100 million facility. The new facility includes a committed $125 million facility and access to an accordion feature that increases the amount of the credit available to the Company by $75 million. Interest on the facility is calculated with reference to LIBOR plus 1.25% to 1.75%, dependent on the Company's Total Leverage ratio.

The lending syndicate for the new facility is led by JPMorgan Chase Bank, N.A. ("J.P. Morgan") and also includes the Bank of Nova Scotia, U.S. Bank and Wells Fargo.

Normal Course Issuer Bid Renewal – November 2019

On November 6, 2019, 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 6,974,495 of its common shares, or approximately 9.8% of the common shares outstanding as of October 31, 2019. Purchases under the bid are subject to a daily restriction of 14,875 shares. As of December 31, 2019, the Company has repurchased 1,607,579 common shares under both its previous and current normal course issuer bids for a total of $4,754,295 (CAD$6,313,347), including transaction fees.

Triad Sedation Associates LLC & Triad Support Services LLC (collectively "TSA") – November 2019

Effective November 1, 2019, the Company entered into a membership interest purchase agreement to purchase an additional 36% interest in TSA, taking its ownership interest from 15% to 51%. The purchase consideration, paid via cash, for the additional 36% interest was $3,185,843 plus deferred consideration of $627,645 and deferred acquisition costs of $15,173. Upon completing the transaction CRH acquired control of TSA; the Company has consolidated the results of TSA from the date control was obtained, November 1, 2019. On conversion from an equity method investment to consolidation, CRH revalued its investment in TSA, resulting in a gain of $1,318,769. The provisional allocated cost of the exclusive professional service agreement which was acquired as part of this acquisition is $8,891,711.

Florida Panhandle Anesthesia Associates LLC ("FPAA") – December 2019

On December 17, 2019, a subsidiary of the Company entered into an asset contribution and exchange agreement to acquire a 51% interest in Florida Panhandle Anesthesia Associates LLC ("FPAA"), a gastroenterology anesthesia services provider in Florida. The purchase consideration, paid via cash, for the acquisition of the Company's 51% interest was $2,725,000. The provisional allocated cost of the exclusive professional service agreement which was acquired as part of this acquisition is $5,416,278.

Results of Operations

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

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

SELECTED US GAAP FINANCIAL INFORMATION

	2019	2018	% Change
Anesthesia services revenue	$110,306,431	$101,790,165	8%
Product sales revenue	10,078,843	10,959,215	(8)%
Total revenue	**120,385,274**	**112,749,380**	**7%**
Total operating expenses, including:	**105,703,079**	**92,454,250**	**14%**
Depreciation and amortization expense	35,009,070	31,486,055	11%
Stock based compensation expense	976,962	2,800,750	(65)%
Operating income	**14,682,195**	**20,295,130**	**(28)%**
Operating margin	**12.2%**	**18.0%**	
Net finance expense	**6,609,618**	**4,567,327**	**45%**
Income from equity investment	**(1,766,968)**	**—**	**NA**
Tax expense	**1,627,061**	**2,711,886**	**(40)%**
Net and comprehensive income	**$ 8,212,484**	**$ 13,015,917**	**(37)%**
Attributable to:			
Shareholders of the Company	3,771,163	4,679,921	(19)%
Non-controlling interest[1]	4,441,321	8,335,996	(47)%
Earnings per share attributable to shareholders:			
Basic	$ 0.053	$ 0.064	
Diluted	$ 0.052	$ 0.063	

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]

	2019	2018	% Change
Total Adjusted operating expenses	$68,681,627	$58,060,387	18%
Adjusted operating EBITDA – non-controlling interest[2]	15,080,425	18,856,198	(20)%
Adjusted operating EBITDA – shareholders of the Company	36,623,224	35,832,795	2%
Adjusted operating EBITDA – total	$51,703,649	$54,688,993	(5)%
Adjusted operating EBITDA margin	42.9%	48.5%	

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, 2019.

Seasonality impacts quarterly anesthesia and product revenues. With our expenses primarily fixed, adjusted operating EBITDA margins will fluctuate quarterly. 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 '19	Q3 '19	Q2 '19	Q1 '19	Q4 '18	Q3 '18	Q2 '18	Q1 '18
Anesthesia services revenue	27,621	27,967	28,026	26,693	28,931	26,073	24,677	22,109
Product sales revenue	2,749	2,448	2,456	2,426	3,090	2,658	2,654	2,557
Total revenue	**30,369**	**30,415**	**30,482**	**29,119**	**32,022**	**28,732**	**27,331**	**24,666**
Total operating expense	**27,812**	**26,702**	**25,895**	**25,294**	**25,094**	**24,232**	**22,902**	**20,226**
Adjusted operating expenses								
Anesthesia services	15,588	15,036	14,609	13,779	13,554	13,047	12,102	10,416
Product sales	1,118	1,002	1,131	1,053	1,237	1,065	1,271	1,093
Corporate	1,393	1,319	1,444	1,211	1,361	1,108	1,064	743
Total adjusted operating expenses	**18,099**	**17,357**	**17,184**	**16,042**	**16,151**	**15,220**	**14,437**	**12,252**
Operating income	**2,558**	**3,713**	**4,587**	**3,825**	**6,928**	**4,499**	**4,428**	**4,439**
Operating margin	**8%**	**12%**	**15%**	**13%**	**22%**	**16%**	**16%**	**18%**
Adjusted operating EBITDA - non-controlling interest[2]	3,465	3,666	3,638	4,311	5,215	4,996	4,464	4,182
Adjusted operating EBITDA- shareholders of the Company	**8,805**	**9,392**	**9,661**	**8,766**	**10,656**	**8,515**	**8,429**	**8,231**
Adjusted operating EBITDA - total	**12,270**	**13,058**	**13,298**	**13,077**	**15,871**	**13,512**	**12,893**	**12,414**
Adjusted operating EBITDA margin	**40%**	**43%**	**44%**	**45%**	**50%**	**47%**	**47%**	**50%**
Net finance (income) expense	913	1,125	2,179	2,392	1,721	1,625	609	612
Income tax expense (recovery)	891	565	4	167	1,059	390	593	669
Net income	**2,104**	**2,099**	**2,619**	**1,391**	**4,148**	**2,484**	**3,226**	**3,157**
Net income attributable to:								
Shareholders of the Company	1,219	982	1,647	(77)	1,711	267	1,291	1,411
Non-controlling interest[2]	885	1,117	972	1,468	2,437	2,218	1,935	1,746
Adjusted Operating EBITDA per share attributable to shareholders								
Basic	0.123	0.131	0.133	0.122	0.146	0.116	0.116	0.113
Diluted	0.121	0.129	0.131	0.120	0.143	0.114	0.114	0.111
Earnings (loss) per share attributable to shareholders								
Basic	0.017	0.014	0.023	(0.001)	0.023	0.004	0.018	0.019
Diluted	0.017	0.013	0.022	(0.001)	0.023	0.004	0.017	0.019

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, 2019 and 2018

Revenues for the year ended December 31, 2019 were $120,385,274 compared to $112,749,380 for the year ended December 31, 2018. The 7% increase is mainly attributable to revenue contributions from the anesthesia businesses acquired by the Company in 2019, along with acquisitions completed mid-year in fiscal 2018. Revenues for the three months ended December 31, 2019 reflect the revenue contributions from anesthesia businesses acquired during 2019 and were $30,369,223, a decrease of 5% or $1,652,545 when compared to the three months ended December 31, 2018.

Revenues from anesthesia services for the year ended December 31, 2019 were $110,306,431 compared to $101,790,165 for the year ended December 31, 2018. The increase was primarily due to the Company's anesthesia acquisitions throughout 2019 and 2018; however, there were additional factors which impacted the change in revenue between fiscal 2019 and fiscal 2018. The $8.5 million increase in revenue from the prior period is reflective of the following:

- growth through acquisitions completed in 2018 and 2019 contributed $14.7 million of the increase when comparing the two periods. This is comprised of growth from acquisitions completed in 2018 ($9.5 million) and growth from acquisitions completed in 2019 ($5.2 million);
- organic case growth in our entities acquired prior to December 2018 of approximately $4.5 million;
- changes in non-contract payor reimbursement strategies and payor mix, primarily related to entities acquired prior to 2018, decreased 2019 revenue by $9.4 million or approximately 9% when compared to 2018; and
- the Company incurred a negative adjustment as a result of a change in estimate of approximately $1.3 million.

Anesthesia revenues for the three months ended December 31, 2019 were $27,620,526 compared to $28,931,460 for the three months ended December 31, 2018. The $1.3 million decrease in revenue from the prior period is reflective of the following:

- growth through acquisitions completed in 2019 contributed $2.8 million when comparing the two periods;
- organic case growth in our entities acquired prior to December 2018 of approximately $0.9 million;
- changes in non-contract payor reimbursement strategies and payor mix, primarily related to entities acquired prior to 2018, decreased revenue in the fourth quarter of 2019 by $3.4 million or approximately 12% when compared to the fourth quarter of 2018; and
- the Company incurred a negative adjustment as a result of a change in estimate of approximately $1.6 million.

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

In the year ended December 31, 2019, the anesthesia services segment serviced 345,393 patient cases compared to 276,766 patient cases during the year ended December 31, 2018. Patient cases serviced in the fourth quarter of 2019 were 94,503 compared to 80,923 patient cases in the fourth quarter of 2018.

The tables below summarize our approximate payor mix as a percentage of all patient cases for the years ended December 31, 2019 and 2018 and for the fourth quarters of 2019 and 2018.

	Three months ended			Years ended		
Payor	**December 31, 2019**	**December 31, 2018**	**Change**	**December 31, 2019**	**December 31, 2018**	**Change**
Commercial	60.7%	62.8%	(3.3)%	58.8%	59.3%	(0.8)%
Federal	39.3%	37.2%	5.6%	41.2%	40.7%	1.2%
Total	**100.0%**	**100.0%**		**100.0%**	**100.0%**	

The payor mix for the three months and year ended December 31, 2019 includes acquisitions completed during 2019 and 2018 and as a result is not directly comparable to the three months and year ended December 31, 2018. As we acquire anesthesia providers, these providers may have different payor mix profiles and impact our overall payor mix above.

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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

The table below summarizes our approximate payor mix as a percentage of all patient cases for the three months and year ended December 31, 2019 and 2018, but exclude patient cases related to acquisitions completed in 2018 and 2019 as inclusion of these acquisitions would reduce comparability of the data presented.

	Three months ended			Years ended		
Payor	**December 31, 2019**	**December 31, 2018**	**Change**	**December 31, 2019**	**December 31, 2018**	**Change**
Commercial	63.5%	63.7%	(0.3)%	60.8%	59.8%	1.7%
Federal	36.5%	36.3%	0.6%	39.2%	40.2%	(2.5)%
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, 2019, by quarter, and excludes patient cases related to acquisitions completed in 2018 and 2019 as inclusion of these acquisitions would reduce the comparability of the date presented.

Payor	**Q4 2019**	**Q3 2019**	**Q2 2019**	**Q1 2019**
Commercial	63.5%	60.4%	59.3%	59.6%
Federal	36.5%	39.6%	40.7%	40.4%
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 2019 is provided below for organic patient cases; it excludes patient cases relating to acquisitions completed in 2019.

Seasonality	**Q4 2019**	**Q3 2019**	**Q2 2019**	**Q1 2019**
Patient cases	26.3%	25.4%	25.2%	23.2%

Revenues from product sales for the year ended December 31, 2019 were $10,078,843 compared to $10,959,215 for 2018. 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. Throughout 2019 we have initiated additional practice support initiatives, including a greater emphasis on re-training physicians in practices where usage has decreased. We continue to engage in re-training initiatives where usage has decreased. As of December 31, 2019, the Company has trained 3,158 physicians to use the O'Regan System, representing 1,209 clinical practices. This compares to 2,944 physicians trained, representing 1,124 clinical practices, as of December 31, 2018.

Total operating expenses

Total operating expense for the year ended December 31, 2019 was $105,703,079 compared to $92,454,250 for the year ended December 31, 2018. Total operating expense for the three months ended December 31, 2019 was $27,811,635 compared to $25,093,657 for the three months ended December 31, 2018. 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 2019 and throughout 2018, offset by a decrease in stock-based compensation expense.

Amortization expense increased by 11% from 2018. This is a result of acquisitions completed in 2018 and 2019 and the related intangible assets that were acquired. Stock-based compensation expense decreased by 65% when compared to 2018. This decrease is largely due actual forfeitures experienced in Q2 2019, primarily related to the departure and replacement of the Company's CEO on April 9, 2019.

Total adjusted operating expenses – Non-GAAP[1]

For the year ended December 31, 2019, total adjusted operating expenses were $68,681,627 compared to $58,060,387 for the year ended December 31, 2018. For the three months ended December 31, 2019, total adjusted operating expenses were $18,099,185 compared to $16,151,179 for the three months ended December 31, 2018. Increases in adjusted operating expenses are primarily related to adjusted operating expenses in the anesthesia services business.

Anesthesia services adjusted operating expenses for the year ended December 31, 2019 were $59,011,532, compared to $49,119,072 for the year ended December 31, 2018. 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 twenty-four further acquisitions completed in 2015, 2016, 2017, 2018 and 2019. As a result, fiscal 2019 is not directly comparable to 2018, 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 $171 per case for the year ended December 31, 2019, as compared to $177 per case for the year ended December 31, 2018. The decrease in expense per case is reflective of the leverage of our existing infrastructure and the cost profile of acquisitions completed in fiscal 2019. Anesthesia services adjusted operating expenses for the three months ended December 31, 2019 were $15,588,323 compared to $13,553,945 for the three months ended December 31, 2018. Total adjusted operating expenses per case were $165 per case for the three months ended December 31, 2019, slightly lower than the three months ended December 31, 2018.

Product sales adjusted operating expenses for the year ended December 31, 2019 were $4,303,630 compared to $4,665,616 for the year ended December 31, 2018. In general, costs have decreased when compared to 2018 due to decreased spend on conferences as a result of a shift to more cost effective marketing initiatives as well as the introduction of a new, more cost effective warehousing group. Product sales adjusted operating expenses for the three months ended December 31, 2019 were $1,117,862 compared to $1,236,732 for the three months ended December 31, 2018.

Corporate adjusted operating expenses for the year ended December 31, 2019 were $5,366,464 compared to $4,275,699 for the year ended December 31, 2018. 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. Non-recurring costs related to the departure and replacement of the Company's CEO have been excluded from corporate adjusted operating expenses for the year ended December 31, 2019; these costs of approximately $930,000 are non-recurring and thus are not reflective of future expected operating costs. Corporate adjusted operating expenses for the three months ended December 31, 2019 were $1,393,000 compared to $1,360,502 for the three months ended December 31, 2018.

Operating Income

Operating income for the year ended December 31, 2019 was $14,682,195 compared to $20,295,130 for the same period in 2018. Operating income for the three months ended December 31, 2019 was $2,557,588 compared to $6,928,201 for the comparable period in 2018. The following schedule reconciles the changes in operating income between periods:

	Year ended December 31, 2019	Quarter ended December 31, 2019
Prior period operating income	$ 20,295,130	$ 6,928,201
Increase (decrease) in period revenues	7,635,896	(1,652,545)
Increase in period adjusted operating expenses[1]	(10,621,240)	(1,948,006)
Increase in period amortization and depreciation expense	(3,523,015)	(696,710)
(Increase) decrease in period stock based compensation expense	1,823,786	(96,830)
Increase in other non-recurring expenses	(930,917)	—
Decrease in period acquisition expenses	2,555	23,478
Current period operating income	$ 14,682,195	$ 2,557,588

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 2018 and 2019 of $3,523,015 offset by decreases in stock based compensation expense of $1,823,786. Additionally, the Company incurred incremental costs of $930,917 associated with the replacement of the Company's CEO in the second quarter of 2019.

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 2019 of $696,710 and an increase in stock based compensation expense of $96,830.

Anesthesia operating income for the year ended December 31, 2019 was $15,800,392, a decrease of $4,910,621 from the same period in 2018. This decrease is primarily reflective of the incremental costs related to the amortization of acquired professional service agreements relating to acquisitions completed in 2018 and 2019, offset by the increase in operating EBITDA in the year (calculated above as revenues less adjusted operating expenses). Operating EBITDA, as described below, was impacted by declines in revenue rates for our non-contracted payors and thus was lower than experienced in the year ended December 31, 2018. Anesthesia operating income for the three months ended December 31, 2019 was $2,919,379 compared to income of $6,957,715 for the three months ended December 31, 2018.

Product operating income for the year ended December 31, 2019 was $5,431,124, a decrease of $505,354 from the same period in 2018. The decrease is primarily driven by the decline in revenues in the year, offset by decreases seen in adjusted operating expenses. Product operating income for the three months ended December 31, 2019 was $1,542,183 compared to $1,825,090 for the three months ended December 31, 2018.

Adjusted operating EBITDA[1] – Non-GAAP

Adjusted operating EBITDA attributable to shareholders of the Company for the year ended December 31, 2019 was $36,623,224, an increase of $790,429 from the year ended December 31, 2018. The increase in adjusted operating EBITDA attributable to shareholders is primarily a reflection of the contributions from acquisitions completed in 2018 and 2019, offset by revenue rate changes as a result of changes in reimbursement strategies from our non-contracted commercial payors. Adjusted operating EBITDA was also favorably 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, 2019 was $8,804,741, a decrease of 17% from the same period in 2018. The decrease is primarily a reflection of contributions from acquisitions completed in 2019, offset by revenue rate changes as a result of changes in reimbursement strategies from our non-contracted commercial payors.

Adjusted operating EBITDA attributable to non-controlling interest was $15,080,425 for the year ended December 31, 2019. This comprises the non-controlling interests' share of revenues of $29,808,084 and adjusted operating expenses of $14,727,659 and is a decrease of $3,775,773. Similar to Adjusted operating EBITDA attributable to shareholders, the decrease is a reflection of the decrease in revenue rates in the period for commercial payors. Adjusted operating EBITDA attributable to non-controlling interest was $3,465,297 for the three months ended December 31, 2019. This comprises the non-controlling interests' share of revenues of $7,292,235 and adjusted operating expenses of $3,826,938.

Total adjusted operating EBITDA was $51,703,649 for the year ended December 31, 2019, a decrease of 5% from the same period in 2018. Total adjusted operating EBITDA was $12,270,038 for the three months ended December 31, 2019, a decrease of 23% from the same period in 2018.

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 $6,609,618 for the year ended December 31, 2019, compared to a net finance expense of $4,567,327 for the year ended December 31, 2018. Net finance expense is comprised of both interest and other debt related expenses, including fair value adjustments. Fair value adjustments related to the Company's earn-out obligation are the primary driver of significant fluctuations in finance expense between comparable periods.

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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.

	2019	2018
Finance expense:		
Interest and accretion expense on borrowings	$ 3,288,704	$ 3,168,762
Accretion expense on earn-out obligation and deferred consideration	133,450	166,575
Amortization of deferred financing fees	276,260	260,363
Net change in fair value of financial liabilities at fair value through earnings	2,861,204	971,627
Other	50,000	—
Total finance expense	$ 6,609,618	$ 4,567,327
Net finance expense	$ 6,609,618	$ 4,567,327
Net finance expense, excluding fair value adjustments	$ 3,748,414	$ 3,595,700

During the year ended December 31, 2019, the Company recognized a fair value adjustment of $2,861,204 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, which were driven by both changes in payor mix and revenue rates per unit. During the three months ended December 31, 2019, the Company recognized a fair value adjustment of $89,966 in respect of its earn-out obligation.

Cash interest paid in the year ended December 31, 2019 was $3,055,374 compared to $3,180,808 cash interest paid in 2018. As at December 31, 2019, the Company owed $69.3 million under its JP Morgan Facility as compared to $70.25 million owed at December 31, 2018 under its facility with the Bank of Nova Scotia. 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, 2019, the Company recorded an income tax expense of $1,627,061 compared to income tax expense of $2,711,886 for the year ended December 31, 2018. Income tax expense relates only to income attributable to the Company's shareholders. The Company recorded an income tax expense of $891,009 in the three months ended December 31, 2019 compared to $1,059,442 recorded in the three months ended December 31, 2018. The decrease in tax expense period over period is a reflection of the decrease in taxable income in the period.

Net and comprehensive income

For the year ended December 31, 2019, the Company recorded net and comprehensive income attributable to shareholders of the Company of $3,771,163 compared to net and comprehensive income attributable to shareholders of $4,679,921 for the year ended December 31, 2018. The decrease year over year is largely a reflection of the decrease in operating income in the period, offset by income and gains earned on its TSA equity investment.

For the three months ended December 31, 2019, the Company recorded net and comprehensive income attributable to shareholders of the Company of $1,219,079 compared to $1,711,144 for the same period in 2018. The decrease period over period is largely a reflection of the decrease in operating income in the period offset by gains earned on its TSA equity investment.

Net and comprehensive income attributable to non-controlling interest was $4,441,321 for the year ended December 31, 2019 compared to $8,335,996. This 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 $884,610 for the three months ended December 31, 2019 compared to $2,437,108 for the three months ended December 31, 2018. During the year, CRH acquired the remaining non-controlling interest in CCAA and Arapahoe, reducing net income attributable to non-controlling interest when compared to prior periods. Additionally, the decrease in net and comprehensive income attributable to non-controlling interest is reflective of the decrease in adjusted operating EBITDA in the period.

Use of Non-GAAP Financial Measures

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

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

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

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

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

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

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

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

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

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

ADJUSTED OPERATING EBITDA

	2019					2018				
(USD in thousands)	FY '19	Q4 '19	Q3 '19	Q2 '19	Q1 '19	FY '18	Q4 '18	Q3 '18	Q2 '18	Q1 '18
Net and comprehensive income	**8,213**	**2,104**	**2,099**	**2,619**	**1,391**	**13,016**	**4,148**	**2,484**	**3,226**	**3,157**
Net finance (income) expense	6,609	913	1,125	2,179	2,392	4,567	1,720	1,625	609	612
Equity income	(1,766)	(1,350)	(77)	(214)	(125)	—	—	—	—	—
Income tax expense (recovery)	1,627	891	565	4	167	2,712	1,059	390	593	669
Operating income	**14,683**	**2,558**	**3,713**	**4,587**	**3,825**	**20,295**	**6,928**	**4,499**	**4,428**	**4,439**
Amortization expense	34,898	9,006	8,528	8,723	8,641	31,390	8,313	8,185	7,695	7,196
Depreciation and related expense	111	29	28	27	27	96	25	24	24	23
Stock based compensation	977	697	706	(990)	564	2,801	600	745	719	738
Acquisition expenses[1]	104	(19)	83	20	20	107	5	59	26	18
Other non-recurring items[2]	931	-	—	931	—	—	—	—	—	—
Total adjusted operating EBITDA	**51,703**	**12,270**	**13,058**	**13,298**	**13,077**	**54,689**	**15,871**	**13,512**	**12,893**	**12,414**
Adjusted operating EBITDA attributable to:										
Shareholders of the Company	36,623	8,805	9,392	9,661	8,766	35,833	10,656	8,515	8,429	8,231
Non-controlling interest	15,080	3,465	3,666	3,638	4,311	18,856	5,215	4,996	4,464	4,182

1 Acquisition expenses relating to incomplete acquisitions-

2 Non-recurring expenses relating to the replacement of the Company's CEO

ADJUSTED OPERATING EBITDA MARGIN

	2019					2018				
(USD in thousands)	FY '19	Q4 '19	Q3 '19	Q2 '19	Q1 '19	FY '18	Q4 '18	Q3 '18	Q2 '18	Q1 '18
Revenue	**120,385**	**30,369**	**30,415**	**30,482**	**29,119**	**112,749**	**32,022**	**28,732**	**27,331**	**24,666**
Operating income	**14,682**	**2,558**	**3,713**	**4,587**	**3,825**	**20,295**	**6,928**	**4,499**	**4,428**	**4,439**
Operating margin	**12.2%**	**8.4%**	**12.2%**	**15.0%**	**13.1%**	**18.0%**	**21.6%**	**15.7%**	**16.2%**	**18.0%**
Amortization expense	29.0%	29.7%	28.0%	28.6%	29.7%	27.8%	26.0%	28.5%	28.2%	29.2%
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	0.8%	2.3%	2.3%	(3.2)%	1.9%	2.5%	1.9%	2.6%	2.6%	3.0%
Acquisition expenses[1]	0.1%	-0.1%	0.3%	0.1%	0.1%	0.1%	0.0%	0.2%	0.1%	0.1%
Other non-recurring items[2]	0.8%	(—)%	(—)%	3.1%	(—)%	(—)%	(—)%	(—)%	(—)%	(—)%
Total adjusted operating EBITDA margin	**42.9%**	**40.4%**	**42.9%**	**43.6%**	**44.9%**	**48.5%**	**49.6%**	**47.0%**	**47.2%**	**50.3%**

ADJUSTED OPERATING EXPENSES

(USD in thousands)	2019					2018				
	FY '19	Q4 '19	Q3 '19	Q2 '19	Q1 '19	FY '18	Q4 '18	Q3 '18	Q2 '18	Q1 '18
Anesthesia services expense	**94,505**	**24,701**	**23,774**	**23,471**	**22,559**	**81,079**	**21,973**	**21,405**	**19,957**	**17,743**
Amortization expense	(34,895)	(9,005)	(8,527)	(8,722)	(8,641)	(31,387)	(8,312)	(8,184)	(7,695)	(7,196)
Depreciation and related expense	(13)	(4)	(3)	(3)	(3)	(7)	(2)	(2)	(2)	(1)
Stock based compensation	(482)	(123)	(125)	(117)	(117)	(459)	(100)	(114)	(132)	(112)
Acquisition expenses[1]	(104)	19	(83)	(20)	(20)	(107)	(5)	(59)	(26)	(18)
Anesthesia services – adjusted operating expense	**59,012**	**15,588**	**15,036**	**14,609**	**13,779**	**49,119**	**13,554**	**13,047**	**12,102**	**10,416**
Product sales expense	**4,647**	**1,207**	**1,089**	**1,217**	**1,134**	**5,023**	**1,265**	**1,182**	**1,359**	**1,217**
Amortization expense	(3)	(1)	(1)	(1)	—	(3)	(1)	(1)	(1)	(1)
Depreciation and related expense	(24)	(5)	(5)	(5)	(9)	(66)	(17)	(16)	(16)	(16)
Stock based compensation	(319)	(83)	(82)	(81)	(73)	(289)	(11)	(100)	(71)	(107)
Product sales - adjusted operating expense	**4,304**	**1,118**	**1,002**	**1,131**	**1,053**	**4,665**	**1,237**	**1,065**	**1,271**	**1,093**
Corporate expense	**6,549**	**1,904**	**1,839**	**1,206**	**1,600**	**6,352**	**1,855**	**1,644**	**1,586**	**1,267**
Amortization expense	-	-	—	—	—	—	—	—	—	—
Depreciation and related expense	(75)	(20)	(20)	(20)	(15)	(23)	(6)	(6)	(6)	(5)
Stock based compensation	(178)	(491)	(500)	1,188	(375)	(2,053)	(488)	(530)	(516)	(519)
Other non-recurring items[2]	(931)	—	—	(931)	—	—	—	—	—	—
Corporate - adjusted operating expenses	**5,367**	**1,393**	**1,319**	**1,444**	**1,211**	**4,276**	**1,361**	**1,108**	**1,064**	**743**
Total operating expense	**105,703**	**27,812**	**26,702**	**25,895**	**25,294**	**92,454**	**25,093**	**24,232**	**22,902**	**20,226**
Total adjusted operating expense	**68,682**	**18,099**	**17,357**	**17,184**	**16,042**	**58,060**	**16,151**	**15,220**	**14,437**	**12,252**

ADJUSTED OPERATING EXPENSE PER CASE – ANESTHESIA SEGMENT

(USD in thousands, except case and per case amounts)	2019					2018				
	FY '19	Q4 '19	Q3 '19	Q2 '19	Q1 '19	FY '18	Q4 '18	Q3 '18	Q2 '18	Q1 '18
Anesthesia services – adjusted operating expense	59,012	15,588	15,036	14,609	13,779	49,119	13,554	13,047	12,102	10,416
Anesthesia cases serviced	345,393	94,503	88,733	84,656	77,501	276,766	80,923	71,800	66,537	57,506
Total adjusted operating expense per case – Anesthesia segment	**171**	**165**	**169**	**173**	**178**	**177**	**167**	**182**	**182**	**181**

Liquidity and Capital Resources

At December 31, 2019, the Company had $6,568,716 in cash and cash equivalents compared to $9,946,945 at the end of 2018. 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 2019, less repayment of debt in the period.

Working capital was $18,677,498 at December 31, 2019 compared to working capital of $20,012,424 at December 31, 2018. 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, 2019 was 59 days. At December 31, 2018, the average number of days receivables outstanding was 54 days. The Company continues to monitor this measure on an ongoing basis.

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, 2019, 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 and $100 million in 2017.

Most recently, the Company entered into a syndicated debt facility with JP Morgan Chase Bank, increasing its facility to $200 million on October 22, 2019. As at December 31, 2019, the Company owed $69.3 million under the facility. The terms of the Company's facility as of December 31, 2019 is described below.

JP Morgan Chase Facility

On October 22, 2019, the Company entered into a new, three year revolving credit line which provides up to $200 million in borrowing capacity and represents an increase from the Company's previous $100 million facility. The new facility includes a committed $125 million facility and access to an accordion feature that increases the amount of the credit available to the Company by $75 million. Interest on the facility is calculated with reference to LIBOR plus 1.25% to 1.75%, dependent on the Company's Total Leverage ratio. The Facility is secured by the assets of the Company and matures on October 22, 2022. Since the JP Morgan Facility is a syndicated facility, which includes the Bank of Nova Scotia as a lender, any remaining deferred financing fees under the previous Scotia Facility were retained and will be amortized over the term of the new facility. The Company incurred deferred financing fees of $839,893 in connection with this facility. Under the JP Morgan Facility, there are no quarterly or annual repayment requirements. As at December 31, 2019, the Company is required to maintain the following financial covenants in respect of this Facility:

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

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

The Company is in compliance with all covenants at December 31, 2019.

Cash provided by operating activities for the year ended December 31, 2019 was $45,005,557 compared to $40,992,563 in the same period in fiscal 2018. Cash provided by operating activities for the quarter ended December 31, 2019 was $12,335,680 compared to $11,144,081 for the same period in fiscal 2018. Cash used in investing activities for the year ended December 31, 2019 was $20,592,546 as compared to $27,660,941 for the year ended December 31, 2018. Cash used in investing activities for the quarter-ended December 31, 2019 was $6,366,380 as compared to $2,397,652 for the three months ended December 31, 2018. Cash used in financing activities was $27,793,356 for 2019 compared to $15,873,813 for the twelve months ended December 31, 2018. Cash used in financing activities was $4,616,346 as compared to $5,627,462 for the three months ended December 31, 2018.

The Company's near-term cash requirements relate primarily to interest payments, annual payments in respect of the deferred consideration in relation to the Austin acquisition, remaining payments under its earn-out obligation, 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, 2019:

		Maturity			
At December 31, 2019	TOTAL	Less than one year	One to three years	Four to five years	After five years
Trade and other payables	$ 6,196,741	$ 6,196,741	$ —	$ —	$ —
Employee benefits	992,845	992,845	—	—	—
Right of use asset liabilities	179,855	125,555	54,300		
Notes payable and bank indebtedness	68,380,345	—	68,380,345	—	—
Earn-out obligation	1,063,060	1,063,060	—	—	—
Deferred consideration	1,868,052	1,868,052	—	—	—
	$78,680,898	$10,246,253	$68,434,645	$ —	$ —

As at December 31, 2019, 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 $129,680 in fiscal 2020.

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, 2019, the fair value of the earn-out obligation is $1,063,060. The Company expects to pay this obligation in the second quarter of 2020.

Deferred consideration relates to deferred consideration in respect of the Company's Austin Gastroenterology Anesthesia Associates acquisition, which completed in 2016, as well as outstanding payments related to the acquisition of working capital balances as part of the TSA acquisition and CCAA non-controlling interest acquisition, both of which completed in 2019.

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 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, 2019, the Company identified indicators of impairment in respect of six of its professional services agreements. Upon performing undiscounted cash flow models for these assets, the Company identified only two assets that required further review for impairment.

The Company performed discounted cash flow modelling for these assets and compared the resultant discounted cash flows expected over the life of the assets, including a terminal value, to the carrying amounts as at December 31, 2019. 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, anesthesia revenue per case, 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, 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. No impairment was indicated.

Revenue recognition – Anesthesia services:

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.

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. The Company evaluates the inputs into the valuation technique at each reporting period.

Recently Issued Accounting Pronouncements

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.

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

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* The new guidance simplifies the accounting for goodwill impairment by eliminating Step 2 of the goodwill impairment test. Under current guidance, Step 2 of the goodwill impairment test requires entities to calculate the implied fair value of goodwill in the same manner as the amount of goodwill recognized in a business combination by assigning the fair value of a reporting unit to all of the assets and liabilities of the reporting unit. The carrying value in excess of the implied fair value is recognized as goodwill impairment. Under the new standard, goodwill impairment is recognized based on Step 1 of the current guidance, which calculates the carrying value in excess of the reporting unit's fair value. The new standard is effective beginning in January 2020, with early adoption permitted. The Company does not expect the impact of adopting this guidance to be material to its 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, 2019, there were 71,603,584 common shares issued and outstanding for a total of $56,056,113 in share capital.

As at December 31, 2019, there were 1,004,687 options outstanding at a weighted-average exercise price of $1.63 per share, of which 504,687 were exercisable into common shares at a weighted-average exercise price of $0.53 per share. As at December 31, 2019, there were 3,097,500 share units ("**SUs**") issued and outstanding.

As at March 10, 2020, there were 71,592,584 common shares issued and outstanding, excluding shares held as treasury, for a total of $56,047,580 in share capital.

As at March 10, 2020, there were 1,004,687 options outstanding at a weighted-average exercise price of $1.54 per share, of which 504,687 were exercisable into common shares at a weighted-average exercise price of $0.50 per share. As at March 10, 2020, there were 3,097,500 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
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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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Change in accounting principle

As discussed in Note 3 to the consolidated financial statements, the Company has changed its accounting policy for leases as of January 1, 2019 due to the adoption of ASC 842 – Leases.

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
Chartered Professional Accountants
We have served as the Company's auditor since 2008.
Vancouver, Canada
March 11, 2020

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) "Tushar Ramani"

March 11, 2020

Chief Financial Officer
(signed) "Richard Bear"

March 11, 2020

CRH MEDICAL CORPORATION
Consolidated Balance Sheets
(Expressed in United States dollars)

As at December 31, 2019 and 2018

	Note	2019	2018
Assets			
Current assets:			
Cash and cash equivalents		$ 6,568,716	$ 9,946,945
Trade and other receivables, net	5	20,041,288	19,467,803
Income tax receivable		1,332,129	2,243,319
Prepaid expenses and deposits		729,483	822,119
Inventories		349,324	402,544
		29,020,940	32,882,730
Non-current assets:			
Property and equipment, net	8	251,933	303,291
Right of use assets		214,854	—
Intangible assets, net	9	163,108,193	179,384,263
Deferred asset acquisition costs		59,249	116,025
Deferred tax assets	13	10,440,100	6,301,687
		174,074,329	186,105,266
Total assets		$ 203,095,269	$ 218,987,996
Liabilities			
Current liabilities:			
Trade and other payables	6	$ 6,196,741	$ 5,763,222
Employee benefits		992,845	827,436
Current portion of right of use asset liability	7	125,555	—
Current tax payable		28,589	—
Notes payable and bank indebtedness	11	-	2,239,637
Deferred consideration		1,868,052	1,043,645
Earn-out obligation	15	1,063,060	2,920,583
Short-term advances		-	26,783
Member loan		68,600	49,000
		10,343,442	12,870,306
Non-current liabilities:			
Deferred consideration		-	1,183,092
Right of use asset liability	7	54,300	—
Notes payable and bank indebtedness	11	68,380,345	67,621,470
Deferred tax liabilities	13	101,822	21,951
		68,536,467	68,826,513
Equity			
Common stock, no par value; 71,603,584 and 72,055,688 shares issued and outstanding at December 31, 2019 and 2018, respectively	12	56,056,113	55,372,884
Additional paid-in capital		7,168,156	9,329,335
Accumulated other comprehensive loss		(66,772)	(66,772)
Retained earnings		13,154,981	12,916,565
Total equity attributable to shareholders of the Company		76,312,478	77,552,012
Non-controlling interest		47,902,882	59,739,165
Total equity		124,215,360	137,291,177
Total liabilities and equity		$ 203,095,269	$ 218,987,996

See accompanying notes to consolidated financial statements.
Commitments and contingencies (note 16)

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

Years ended December 31, 2019 and 2018

	Notes	2019	2018
Revenue:			
Anesthesia services	18	$ 110,306,431	$ 101,790,165
Product sales	18	10,078,843	10,959,215
		120,385,274	112,749,380
Expenses:			
Anesthesia services expense	18	94,506,039	81,079,150
Product sales expense	18	4,647,719	5,022,737
Corporate expense	18	6,549,321	6,352,363
		105,703,079	92,454,250
Operating income		14,682,195	20,295,130
Finance expense	14	6,609,618	4,567,327
Gain from equity investment	10	(1,766,968)	—
Income before tax		9,839,545	15,727,803
Income tax expense	13	1,627,061	2,711,886
Net and comprehensive income		$ 8,212,484	$ 13,015,917
Attributable to:			
Shareholders of the Company		$ 3,771,163	$ 4,679,921
Non-controlling interest		4,441,321	8,335,996
		$ 8,212,484	$ 13,015,917
Earnings per share attributable to shareholders			
Basic	12(f)	$ 0.053	$ 0.064
Diluted	12(f)	$ 0.052	$ 0.063
Weighted average shares outstanding:			
Basic	12(f)	71,536,310	72,582,733
Diluted	12(f)	72,697,539	74,085,172

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, 2019 and 2018

	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, 2018	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 12(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 12(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
Balance as at January 1, 2019	72,055,688	55,372,884	9,329,335	(66,772)	12,916,565	59,739,165	137,291,177
Total net and comprehensive income for the year	—	—	—	—	3,771,163	4,441,321	8,212,484
Stock based compensation expense	—	—	976,962	—	—	—	976,962
Common shares issued on exercise of options	840,000	733,165	(306,799)	—	—	—	426,366
Common shares issued on vesting of share units	325,875	1,159,912	(1,159,912)	—	—	—	—
Common shares repurchased in connection with normal course issuer bid and cancelled (note 12(e))	(1,607,579)	(1,209,848)	—	—	(3,532,747)	—	(4,742,595)
Cancellation of treasury shares (held as treasury shares as of 12/31/2018)	(10,400)	—	—	—	—	—	—
Distributions to members	—	—	—	—	—	(15,825,600)	(15,825,600)
Purchase of equity interest from non-controlling interest	—	—	(1,671,430)	—	—	(7,676,894)	(9,348,324)
Acquisition of non-controlling interest, including LWA price adjustment (note 4)	—	—	—	—	—	7,224,890	7,224,890
Balance as at December 31, 2019	71,603,584	56,056,113	7,168,156	(66,772)	13,154,981	47,902,882	124,215,360

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, 2019 and 2018

	Notes	2019	2018
Operating activities:			
Net income		$ 8,212,484	$ 13,015,917
Adjustments for:			
Depreciation of property, equipment and intangibles		35,009,070	31,486,055
Stock-based compensation		976,962	2,800,750
Unrealized foreign exchange		8,925	(4,494)
Deferred income tax expense (recovery)		(3,440,121)	(2,407,176)
Change in fair value of contingent consideration		2,861,204	971,627
Accretion on contingent consideration and deferred consideration		133,450	166,575
Amortization of deferred financing fees		276,260	260,363
Gain on equity investment		(1,766,968)	—
Change in current tax receivable (payable)		939,779	(1,936,436)
Change in trade and other receivables		1,376,733	(3,981,491)
Change in prepaid expenses		132,290	171,911
Change in inventories		53,220	20,902
Change in trade and other payables		121,615	101,379
Change in employee benefits		110,654	326,681
Cash provided by operating activities		$ 45,005,557	$ 40,992,563
Financing activities			
Proceeds from member loans		$ 19,600	$ 303,351
Repayment of member loans		-	(662,568)
Repayment of short-term advances		(26,783)	—
Repayment of notes payable and bank indebtedness		(82,550,000)	(14,250,000)
Proceeds on bank indebtedness		81,641,370	22,800,000
Payment of deferred financing fees		(839,892)	—
Payment of deferred consideration		(1,100,000)	(1,000,000)
Payment of earn-out obligation		(4,795,822)	—
Distributions to non-controlling interest		(15,825,600)	(19,289,740)
Proceeds from the issuance of shares relating to stock-based compensation		426,366	—
Repurchase of shares for cancellation	12(e)	(4,742,595)	(3,774,856)
Cash used in financing activities		$ (27,793,356)	$ (15,873,813)
Investing activities			
Acquisition of property and equipment		$ (59,508)	$ (35,105)
Deferred asset acquisition costs		(59,249)	(116,025)
Acquisition of equity interest from non-controlling interest		(9,924,381)	—
Acquisition of anesthesia services providers	4	(15,052,058)	(27,509,811)
Distribution received from equity investment		136,650	—
Purchase adjustment relating to anesthesia service providers acquired in prior periods	4	4,366,000	—
Cash used in investing activities		$ (20,592,546)	$ (27,660,941)
Effects of foreign exchange on cash and cash equivalents		2,116	2,252
Decrease in cash and cash equivalents		(3,378,229)	(2,539,939)
Cash and cash equivalents, beginning of year		9,946,945	12,486,884
Cash and cash equivalents, end of year		$ 6,568,716	$ 9,946,945
Supplemental disclosure of cash interest and taxes paid:			
Cash interest paid		$ (3,055,374)	$ (3,180,808)
Lease payments made		$ (369,262)	$ (292,235)
Non-cash acquisition financing		$ (800,985)	$ —
Taxes paid		$ (4,127,443)	$ (7,055,498)

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) Basis of presentation:

These consolidated financial statements have been prepared in accordance with US GAAP.

(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.

(*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, 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 valuation of acquired intangibles and 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 Company and its subsidiaries.

(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 businesses, 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 on consolidation.

3. **Significant accounting policies (continued):**

(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 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 initial lease	Straight-line	Shorter of 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.

(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

3. Significant accounting policies (continued):

(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 which indicate 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.

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.

(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.

3. **Significant accounting policies (continued):**

(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, 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.

Where the Company acquires an asset via a step transaction, the Company remeasures any previously held interest to fair value.

(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.

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.

3. **Significant accounting policies (continued):**

(p) Adoption of new accounting standards:

i) ASU 2016-02 *Leases*

In February 2016, FASB issued ASU No. 2016-02 "*Leases*", and subsequently ASU No. 2017-13, establishing 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 Company adopted the standard using the modified retrospective method effective January 1, 2019 with nearly all operating classified leases 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 has applied the exemption to treat short-term leases as executory contracts and has applied the package of practical expedients which allowed the Company to carry forward historical lease classification. Upon adoption, the Company recognized $332,512 as a right of use asset with a $295,188 corresponding obligation on its balance sheet at January 1, 2019. Refer to note 7.

(q) New standards and interpretations not yet applied:

(i) 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.

(ii) Income Taxes – Simplifying the Accounting for Income Taxes

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

(iii) Intangibles – Goodwill and Other (Topic 350)

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* The new guidance simplifies the accounting for goodwill impairment by eliminating Step 2 of the goodwill impairment test. Under current guidance, Step 2 of the goodwill impairment test requires entities to calculate the implied fair value of goodwill in the same manner as the amount of goodwill recognized in a business combination by assigning the fair value of a reporting unit to all of the assets and liabilities of the reporting unit. The carrying value in excess of the implied fair value is recognized as goodwill impairment. Under the new standard, goodwill impairment is recognized based on Step 1 of the current guidance, which calculates the carrying value in excess of the reporting unit's fair value. The new standard is effective beginning in January 2020, with early adoption permitted. The Company does not expect the impact of adopting this guidance to be material to its consolidated financial statements.

4. **Asset acquisitions:**

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

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

4. Asset acquisitions (continued):

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

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

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

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.

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.

	ACA	SMAA	CRAA	TSA	FPAA	Total
CRH member loan	$ —	$ 55,000	$ 63,750	$ —	$ 71,400	$ 190,150
Non-controlling interest member loan	$ —	$ 45,000	$ 61,250	$ —	$ 68,600	$ 174,850
Amount outstanding at December 31, 2019	$ —	$ —	$ —	$ —	$ 140,000	$ 140,000

Other Transactions

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

4. Asset acquisitions (continued):

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

In September 2019, the Company also received a payment of $4,366,000 in respect of the LWA acquisition which was a reduction in the purchase price. This payment served to reduce the value of the related LWA professional services contract intangible and did not modify ownership interest or the term of the LWA agreement.

On November 1, 2019, the Company acquired an additional 36% interest in Triad Sedation Associates LLC and Triad Support Services PLLC (collectively "TSA"). Prior to this transaction, the Company held a 15% interest in TSA and it was accounted for under the equity method. Upon completing the transaction CRH acquired control of TSA; the Company has consolidated the results of TSA from the date control was obtained, November 1, 2019. On conversion from an equity method investment to consolidation, CRH revalued its investment in TSA, resulting in a gain of $1,318,769. See note 10.

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.

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 respective acquisition agreements and professional services agreements.

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.

5. Trade and other receivables:

	2019	2018
Trade receivables, gross	$ 20,024,916	$ 19,373,260
Other receivables	$ 50,756	141,141
Less: allowance for doubtful accounts	$ (34,384)	(46,598)
	$ 20,041,288	$ 19,467,803
Anesthesia segment – trade receivables, gross	$ 19,081,177	$ 18,199,847
Product segment – trade receivables, gross	943,739	1,173,413
	$ 20,024,916	$ 19,373,260

6. Trade and other payables:

	2019	2018
Trade payables	$ 1,213,276	$ 1,316,821
Accruals and other payables	4,983,465	4,446,401
	$ 6,196,741	$ 5,763,222

7. Right of use assets and related obligations:

On adoption of ASU No. 2016-02 "Leases", and subsequently ASU No. 2017-13, the Company recognized $332,512 and $295,188 as right of use assets and obligations, respectively at January 1, 2019. These amounts relate to two operating leases for premises existing as at January 1, 2019, with a further premises operating lease added in March 2019. The Company has applied the exemption to treat short-term leases as executory contracts as well as applied the practical expedient to choose not to separate non-lease components from lease components and instead to account for each separate lease component and the non-lease components associated with that lease component as a single lease component. During the year ended December 31, 2019, the Company incurred total operating lease expenses of $369,263; this included lease expenses associated with fixed lease payments of $285,890 and variable lease payments of $83,373.

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

	2019	2018
Anesthesia services expense	$ 118,943	$ 74,265
Product sales expense	125,160	108,985
Corporate expense	125,160	108,985
	$ 369,263	$ 292,235

The weighted average lease term of the Company's three premises leases is 1.30 years. The weighted average discount rate used by the Company in calculating the obligation relating to right of use assets is based on the Company's Credit Facility, which is disclosed in note 11.

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

	Undiscounted lease payments
2020	$ 129,680
2021	55,498
	$ 185,178
Accretion related to outstanding lease obligations	(5,323)
Total	$ 179,855
Current obligation relating to right of use assets	$ 125,555
Long-term obligation relating to right of use assets	$ 54,300
Total	$ 179,855

8. Property and equipment:

Property and equipment consist of the following:

	December 31, 2019	December 31, 2018
Computer equipment and software	$ 124,640	$ 94,566
Furniture and equipment	267,051	237,616
Leasehold improvements	5,784	5,784
Injection mold	408,062	408,062
Property and equipment	$ 805,537	$ 746,028
Less: Accumulated depreciation	(553,604)	(442,737)
Property and equipment, net	$ 251,933	$ 303,291

9. Intangible assets:

	Professional Services Agreements	Patents	Total
Cost			
Balance as at January 1, 2018	$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
Additions through asset acquisitions and adjustments (note 4)	18,622,130	—	$ 18,622,130
Balance as at December 31, 2019	$275,113,390	$ 532,598	$275,645,988

	Professional Services Agreements	Patents	Total
Accumulated depreciation			
Balance as at January 1, 2018	$ 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
Amortization expense and adjustments (note 4)	34,895,944	2,256	34,898,200
Balance as at December 31, 2019	$112,035,676	$ 502,119	$112,537,795

	Professional Services Agreements	Patents	Total
Net book value			
December 31, 2019	$163,077,714	$ 30,479	$163,108,193
December 31, 2018	$179,351,528	$ 32,735	$179,384,263

At December 31, 2019, the Company identified indicators of impairment in respect of six of its professional services agreements. Upon performing undiscounted cash flow models for these assets, the Company identified only two assets that required further review for impairment.

The Company performed discounted cash flow modelling for these assets and compared the resultant discounted cash flows expected over the life of the assets, including a terminal value, to the carrying amounts as at December 31, 2019. 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, revenue rates per case, 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.

9. Intangible assets (continued):

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. 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 3.28 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 5.16 years.

Based on the Company's professional services agreements in place at December 31, 2019, 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, 2019:	
2020	$ 37,438,739
2021	32,132,360
2022	25,411,084
2023	21,264,710
2024	19,339,571
	$135,586,464

10. Equity investment:

In October 2018, the Company entered into an agreement with Digestive Health Specialists ("DHS"), located in North Carolina, to assist DHS in the development and management of a monitored anesthesia care program. Under the terms of the agreement, CRH was a 15% equity owner in the anesthesia business, Triad Sedation Associates LLC ("TSA") and received compensation for its billing and collection services. Under the terms of the limited liability company agreement, CRH had the right, at CRH's option, to acquire an additional 36% interest in the anesthesia business at a future date, but no sooner than November 2019. The Company assessed and concluded that, as TSA was an LLC, equity method accounting was required under ASC 970-323 until such time as a change in ownership interest occurred. On November 1, 2019, the Company acquired control of TSA via the exercise of its option to acquire an additional 36% interest. Refer to note 4. The results of operations of the TSA equity investment, up to the date control was obtained by CRH, is presented below. On obtaining control of TSA and completing its option to purchase an additional 36% interest in the entity, CRH revalued its original 15% equity investment with reference to the price paid for the additional 36% interest. This resulted in a gain arising on its equity investment of $1,318,769 in the year. Prior to obtaining control, CRH recorded equity income of $448,199 in relation to its 15% investment in TSA.

Results of operations	Ten months ended October 31, 2019
Anesthesia revenue	$ 4,169,162
Anesthesia services expense	1,514,704
Net income	$ 2,654,458

11. Notes payable:

	December 31, 2019	December 31, 2018
Current portion	$ —	$ 2,239,637
Non-current portion	68,380,345	67,621,470
Total loans and borrowings	$ 68,380,345	$ 69,861,107

11. Notes payable (continued):

J.P.Morgan Chase ("JP Morgan Facility")

On October 22, 2019, the Company entered into a new, three year revolving credit line which provides up to $200 million in borrowing capacity and represents an increase from the Company's previous $100 million facility. The new facility includes a committed $125 million facility and access to an accordion feature that increases the amount of the credit available to the Company by $75 million. Interest on the facility is calculated with reference to LIBOR plus 1.25% to 1.75%, dependent on the Company's Total leverage ratio. The Facility is secured by the assets of the Company and matures on October 22, 2022. Since the JP Morgan Facility is a syndicated facility, which includes the Bank of Nova Scotia as a lender, any remaining deferred financing fees under the previous Scotia Facility were retained and will be amortized over the term of the new facility. The Company incurred deferred financing fees of $839,893 in connection with this facility. Under the JP Morgan Facility, there are no quarterly or annual repayment requirements. As at December 31, 2019, the Company is required to maintain the following financial covenants in respect of this Facility:

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

The Company is in compliance with all covenants at December 31, 2019.

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 had a maturity date of June 26, 2020. The facility bore 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 was calculated at LIBOR plus 2.50% on the revolving portion and term portion of the facility. The Facility was secured by the assets of the Company. The Company repaid and extinguished its obligations under this facility on October 22, 2019.

The consolidated minimum loan payments (principal) in the future for all loan agreements in place as of December 31, 2019 are as follows:

	Minimum Principal
At December 31, 2019	
2020	$ —
2021	—
2022	69,341,370
	$ 69,341,370

12. Share capital:

(a) Authorized:

100,000,000 common shares without par value.

(b) Issued and outstanding – common shares:

Other than in connection with shares issued in respect of the Company's share unit and share option plans and in connection with the Company's normal course issuer bid (note 12(e)), there were no share transactions in the years ended December 31, 2019 and 2018.

12. 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, 2019, the Company is authorized to grant a further 2,575,492 awards under its stock options plan. A summary of the status of the plan as of December 31, 2019 and 2018 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, 2018	1,344,687	$ 0.69	$ 0.55
Issued	—	—	—
Exercised	—	—	—
Forfeited	—	—	—
Expired	—	—	—
Outstanding, December 31, 2018	1,344,687	$ 0.69	$ 0.53
Issued	500,000	3.56	2.73
Exercised	(840,000)	(0.68)	(0.52)
Forfeited	—	—	—
Expired	—	—	—
Outstanding, December 31, 2019	1,004,687	$ 2.12	$ 1.63

All but 500,000 options are vested as of December 31, 2019 (2018 – all options are vested).

The weighted average fair value of stock options granted during the year ended December 31, 2019 was $1.43 (CAD$1.86) The estimated fair value of the stock options granted was determined using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2019
Expected life of options	5.05 years
Risk-free interest rate	1.61%
Dividend yield	0%
Volatility	63%
Pre-vest forfeiture rate	3.67%

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

For those options that were exercised in 2019, the intrinsic value of the options that were exercised was $2,067,497 and the fair value of the options that were exercised was $306,798.

12. **Share capital continued:**

(c) Stock option plan (continued):

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

December 31, 2019:

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	0.46 - 0.57	504,687	4.05	0.69	0.53	504,687	0.69	0.53
3.56 - 3.56	2.73 - 2.73	500,000	9.27	3.56	2.73	—	—	—

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)
0.60 - 0.70	0.44 – 0.51	1,344,687	5.05	0.69	0.50	1,344,687	0.69	0.50

For the year ended December 31, 2019, the Company recognized $239,413 (2018 - $468), 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, 2019, the Company is authorized to grant a further 482,679 awards under its share unit plan.

12. **Share capital continued:**

(d) Share unit plan (continued):

A summary of the status of the share unit plan as of December 31, 2019 and 2018 is as follows:

	Time based share units	Performance based share units
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
Outstanding, January 1, 2019	1,045,250	1,500,000
Issued	1,553,125	—
Exercised	(325,875)	—
Forfeited	(125,000)	(550,000)
Expired	—	—
Outstanding, December 31, 2019	2,147,500	950,000
Vested	—	-
Expected to vest	2,147,500	-

	Time based share units	Performance based share units
Outstanding, January 1, 2019	1,045,250	1,500,000
Weighted average contractual life (years)	2.74	7.99
Outstanding, December 31, 2019	2,147,500	950,000
Weighted average contractual life (years)	3.03	7.02

For those share units that vested in 2019, the intrinsic value of the share units that vested was $1,038,456 and the fair value of the share units that vested was $1,159,913.

During the year ended December 31, 2019, the Company granted 1,553,125 time based share units. The weighted average fair value for the time based units at the date of grant was $2.93 (CAD$3.81) 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, 2019, the Company issued 325,875 shares in respect of the 325,875 time-based share units which vested during the year.

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, 2019, the Company recognized $737,548 (2018 - $2,800,280), in compensation expense in relation to the granting and vesting of share units.

12. Share capital continued:

(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, with a subsequent renewal on November 6, 2019. Under the renewed bid, the Company may purchase up to 6,974,495 shares pursuant to the bid, representing no more than 9.8% of the Company's shares outstanding on October 31, 2019. 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 14,875 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 2019, the Company repurchased 1,607,579 of its shares for a total cost, including transaction fees, of $4,754,295 (CAD$6,313,347). As at December 31, 2019, all of these shares have been cancelled.

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.

(f) Earnings per share:

The calculation of basic earnings per share for the years ended December 31, 2019 and 2018 is as follows:

	2019			2018		
	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	$3,771,163	71,536,310	0.053	$4,679,921	72,582,733	$ 0.064
Share options		421,249			1,122,708	
Share units		739,980			379,731	
Diluted	$3,771,163	72,697,539	$ 0.052	$4,679,921	74,085,172	$ 0.063

For the year ended December 31, 2019, 502,529 options (2018 –221,979) and 1,883,204 share units (2018 – 2,095,260) were excluded from the diluted weighted average number of common shares calculation.

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

13. Income taxes:

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

	2019	2018
Current tax expense	$ 5,067,182	$ 5,119,062
Deferred tax recovery	(3,440,121)	(2,407,176)
Total tax expense	$ 1,627,061	$ 2,711,886

The reconciliation of income tax computed at statutory tax rates to income tax expense, using a 27% (2018 – 27%) statutory rate, is:

	2019	2018
Net income before tax – Canada	$ 6,889,481	$ 5,957,089
Net income before tax – United States	2,950,064	9,770,714
Net income before tax – All jurisdictions	$ 9,839,545	$ 15,727,803
Tax expense at statutory income tax rates	$ 2,656,677	$ 4,259,890
Permanent differences	(50,235)	503,964
Income attributable to non-controlling interest	(1,192,280)	(2,245,809)
Foreign income taxed at different rates	33,189	(26,042)
Impact of change in tax rates	26,902	216,295
Other	152,808	3,588
Total tax expense	$ 1,627,061	$ 2,711,886

(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.

	2019	2018
Deferred tax assets:		
Property and equipment	$ 2,684	356
Intangible assets	9,222,824	4,752,898
Finance related costs	224,986	375,182
Reserves	64,755	—
Share transaction costs	—	87,337
Stock-based compensation	767,228	534,926
Earn-out obligation	265,660	732,986
Deferred tax liabilities:		
Property and equipment	(23,757)	(40,357)
Deferred consideration	(4,226)	(18,388)
Reserves	(83,206)	(55,568)
Unrealized foreign exchange	(20,610)	(20,698)
Finance related costs	(78,060)	(68,938)
Net deferred tax asset	$ 10,338,278	$ 6,279,736

13. Income taxes (Continued):

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

Deferred tax assets by jurisdiction	2019	2018
Canada:		
Deferred tax asset	$ —	$ 87,343
Deferred tax liability	(101,822)	(109,294)
Net deferred tax asset (liability)	$ (101,822)	$ (21,951)
United States:		
Deferred tax asset	$ 10,548,137	$ 6,396,341
Deferred tax liability	(108,037)	(94,654)
Net deferred tax asset (liability)	$ 10,440,100	$ 6,301,687

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 reverse. 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, 2019 and 2018, 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. The Company is currently under audit by the IRS for its 2017 taxation year. Management is not aware of any other material income tax examination currently in progress by any taxing jurisdiction. Tax years ranging from 2017 to 2019 remain subject to Canadian income tax examinations. Tax years ranging from 2016 to 2019 remain subject to U.S. income tax examinations.

14. Net finance expense

Recognized in earnings in the years ended December 31:

	2019	2018
Finance expense:		
Interest and accretion expense on borrowings	$ 3,288,704	$ 3,168,762
Accretion expense on earn-out obligation and deferred consideration	133,450	166,575
Amortization of deferred financing fees	276,260	260,363
Net change in fair value of financial liabilities at fair value through earnings	2,861,204	971,627
Other	50,000	—
Total finance expense	$ 6,609,618	$ 4,567,327
Net finance expense	$ 6,609,618	$ 4,567,327

15. 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 JP Morgan Facility, approximates carrying value as it is a floating rate instrument. The Company's deferred consideration relating to its Austin Gastroenterology Anesthesia Associates LLC ("AGAA") acquisition in 2016 was initially measured at fair value and is being accreted to its face value over a period of four years from the acquisition date. Additionally, the Company has included amounts within deferred compensation relating to payments under its TSA and CCAA transactions; these amounts are repayable within one year. See note 4.

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

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

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

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

15. Financial instruments (Continued):

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. In the year ended December 31, 2019, the Company paid $4,795,822 as partial payment of the amount owing under its earn-out obligation; the Company expects to pay the remaining obligation of $1,063,060 within one year, and expects payment in the second quarter of 2020. 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. The Company evaluates the inputs into the valuation technique at each reporting period. During the year ended December 31, 2019, the Company revised its estimate underlying the remaining amount to be paid under the earn-out obligation. The amendment of the cash outflow estimates underlying the earn-out resulted in an increase of $2,861,204 for the year ended December 31, 2019 to the fair value of the earn-out obligation. The impact of this adjustment was recorded through finance expense in the period.

During the year ended December 31, 2019, the Company recorded accretion expense of $77,095 (2018 - $73,531), 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, 2019	$ 2,920,583
Payment	(4,795,822)
Recorded in finance expense:	
Accretion expense	77,095
Fair value adjustment	$ 2,861,204
Balance as at December 31, 2019	$ 1,063,060

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 a 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 interest rates, will affect the Company's income or the value of the financial instruments held.

(*i*) Interest rate risk:

As at December 31, 2019, the Company's only interest bearing liability is its JP Morgan Facility. With respect to the Company's Facility, with all other variables held constant, a 10% point increase in the interest rate would have reduced net income by approximately $329,000 (2018 - $295,000) for the year ended December 31, 2019. There would be an equal and opposite impact on net income with a 10% point decrease.

16. Commitments and contingencies:

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

17. 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, 2019, the Company made product sales totaling $35,095 (2018 - $29,685) 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, 2019 (2018 - $nil).

18. 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, 2019 and 2018 are as follows:

	2019	2018
Revenue:		
Canada and other	$ 225,807	$ 271,803
United States	120,159,467	112,477,577
Total	$120,385,274	$112,749,380

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.

	2019	2018
Revenue:		
Commercial Insurers	$ 90,332,380	$ 86,992,218
Federal Insurers	19,404,851	14,246,626
Physicians	10,078,843	10,959,215
Other	569,200	551,321
Total	$120,385,274	$112,749,380

18. 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, 2019 and 2018:

	2019	2018
Property and equipment:		
Canada	$ 210,386	$ 276,621
United States	$ 41,547	26,670
Total	$ 251,933	$ 303,291
Intangible assets:		
Canada	$ 30,478	$ 32,735
United States	$163,077,715	179,351,528
Total	$163,108,193	$179,384,263
Total assets:		
Canada	$ 3,231,845	$ 9,293,796
United States	$199,863,424	209,694,200
Total	$203,095,269	$218,987,996

The financial measures reviewed by the Company's Chief Operating Decision Maker are presented below for the years ended December 31, 2019 and 2018. The Company does not allocate expenses related to corporate activities. These expenses are presented within "Other" to allow for reconciliation to reported measures.

	2019			
	Anesthesia services	Product sales	Other	Total
Revenue	$110,306,431	$10,078,843	$ —	$120,385,274
Operating costs	94,506,039	4,647,719	6,549,321	105,703,079
Operating income (loss)	$ 15,800,392	$ 5,431,124	$(6,549,321)	$ 14,682,195

	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

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

	2019			
	Anesthesia services	Product sales	Other	Total
Finance expense	$ 2,994,654	$ —	$ 3,614,964	$ 6,609,618
Depreciation and amortization expense	$34,908,764	$ 25,534	$ 74,772	$35,009,070

	2018			
	Anesthesia services	Product sales	Other	Total
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