Consolidated Financial Statements of

ALARIS ROYALTY CORP.

Audited statements for the years ended December 31, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alaris Royalty Corp.

We have audited the accompanying consolidated financial statements of Alaris Royalty Corp., which comprise the consolidated statement of financial position as at December 31, 2012 and December 31, 2011, the consolidated statement of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alaris Royalty Corp. as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards**.**

KPMG LLP

Chartered Accountants

March 13, 2013
Calgary, Canada

Alaris Royalty Corp.

Consolidated statement of financial position

	Note	December 31 2012	December 31 2011
Assets			
Cash and cash equivalents		$3,638,255	$3,888,465
Prepayments		182,811	119,508
Trade and other receivables		3,417,642	3,443,679
Current Assets		7,238,708	7,451,652
Promissory note receivable	5	1,250,000	-
Equipment	7	59,881	66,743
Intangible assets	5	6,570,201	6,661,138
Preferred LP Units	5	298,226,402	207,408,290
Investment tax credit receivable	6	10,922,393	10,922,393
Deferred income taxes	6	8,673,125	13,967,984
Non-current assets		325,702,002	239,026,548
Total Assets		$332,940,710	$246,478,200
Liabilities			
Accounts payable and accrued liabilities		$1,805,561	$1,546,705
Dividends payable		2,345,347	1,850,145
Income taxes payable	6	40,585	67,590
Current Liabilities		4,191,493	3,464,440
Loans and borrowings	9	50,000,000	6,500,000
Non-current liabilities		50,000,000	6,500,000
Total Liabilities		$54,191,493	$9,964,440
Equity			
Share capital	8	252,016,172	$200,822,160
Equity reserve		2,930,483	4,626,500
Fair value reserve		2,336,689	2,292,939
Translation reserve		(265,220)	(124,947)
Retained earnings		21,731,093	28,897,108
Total Equity		$278,749,217	$236,513,760
Total Liabilities and Equity		$332,940,710	$246,478,200

Commitments	12
Subsequent events	13

On behalf of the Board:

(signed) *"Jack C. Lee"* Director

(signed) *"Mary Ritchie"* Director

Alaris Royalty Corp.

Consolidated statement of comprehensive income

	Note	Years ended Dec 31	
		2012	2011
Revenues			
Royalties and distributions	5	$32,089,405	$21,497,960
Interest and other		16,509	68,408
Gain on reduction of partner interests	5	-	23,815,973
Gain on sale of intangible assets	5	-	3,891,560
Total Revenue		32,105,914	49,273,901
Salaries and benefits	11	1,796,174	1,875,508
Corporate and office		971,072	859,727
Legal and accounting fees		1,330,689	556,621
Non-cash stock-based compensation	10,11	1,901,683	1,978,727
Depreciation and amortization		107,633	143,244
Subtotal		6,107,251	5,413,827
Earnings from operations		25,998,663	43,860,074
Finance costs		1,033,392	1,235,348
Unrealized foreign exchange loss		241,794	183,060
Earnings before taxes		24,723,477	42,441,666
Deferred income tax expense	6	5,978,701	7,661,200
Current income tax expense	6	709,173	68,022
Total income tax expense		6,687,874	7,729,222
Earnings		18,035,603	34,712,444
Other comprehensive income			
Net change in fair value of Preferred LP units	5	50,000	1,093,437
Tax impact of change in fair value		(6,250)	(136,679)
Realized gain on reduction of partnership interest	5	-	(24,015,973)
Tax impact of realized gain		-	3,001,997
Foreign currency translation differences		(140,273)	(124,947)
Other comprehensive income for the year, net of income tax		(96,523)	(20,182,165)
Total comprehensive income for the year		$ 17,939,080	$ 14,530,279
Earnings per share			
Basic earnings per share		$0.86	$2.04
Fully diluted earnings per share		$0.84	$1.97
Weighted average shares outstanding			
Basic		20,934,899	17,036,346
Fully Diluted		21,475,993	17,595,740

Alaris Royalty Corp.

Consolidated statement of changes in equity

For the year ended December 31, 2011

	Notes	**Share Capital**	**Warrants**	**Equity Reserve**	**Fair Value Reserve**	**Translation Reserve**	**Retained Earnings**	**Total Equity**
Balance at January 1, 2011		$157,402,328	$405,306	$3,174,831	$22,350,157	-	$12,451,862	$195,784,484
Total comprehensive income for the year								
Earnings for the period		-	-	-	-	-	34,712,444	34,712,444
Other comprehensive income								
Net change in fair value of available-for-sale financial assets	5	-	-	-	1,093,437	-	-	1,093,437
Tax impact of change in fair value					(136,679)	-		(136,679)
Realized gain on reduction of partnership interest		-	-	-	(24,015,973)	-	-	(24,015,973)
Tax impact of realized gain		-	-	-	3,001,997	-	-	3,001,997
Foreign currency translation differences		-	-	-	-	(124,947)	-	(124,947)
Total other comprehensive income		-	-	-	(20,057,218)	(124,947)	-	(20,182,165)
Total comprehensive income for the year		$-	$-	$-	$(20,057,218)	$(124,947)	$34,712,444	$14,530,279
Transactions with shareholders of the Company, recognized directly in equity								
Contributions by and distributions to shareholders of the Company								
Non-cash stock based compensation	10	$-	$-	$1,826,178	$-	$-	$-	$1,826,178
Warrants exercised in the period	8	3,988,875	-	-	-	-	-	3,988,875
Fair value of warrants exercised in the period	8	390,794	(390,794)	-	-	-	-	-
Fair value of warrants expired in the period		-	(14,512)	14,512	-	-	-	-
Dividends to shareholders	8	-	-	-	-	-	(18,014,242)	(18,014,242)
Options exercised in the period	8	126,696	-	(14,021)	-	-	-	112,675
Payments in lieu of dividends on RSUs	10	-	-	-	-	-	(248,653)	(248,653)
Shares issued after director RSU vesting	8	375,000	-	(375,000)	-	-	-	-
Shares issued in the period	8	40,053,000	-	-	-	-	-	40,053,000
Share issue costs, net of tax	8	(1,667,083)	-	-	-	-	(4,303)	(1,671,386)
Shares issued in lieu of dividends on RSUs	10	152,550	-	-	-	-	-	152,550
Total transactions with Shareholders of the Company		43,419,832	(405,306)	1,451,669	-	-	(18,267,198)	26,198,997
Balance at December 31, 2011		$200,822,160	$ -	$4,626,500	$2,292,939	$(124,947)	$28,897,108	$236,513,760

Alaris Royalty Corp.

Consolidated statement of changes in equity

For the year ended December 31, 2012

	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2012		$200,822,160	$4,626,500	$2,292,939	$(124,947)	$28,897,018	$236,513,760
Total comprehensive income for the year							
Earnings for the period		-	-	-	-	18,035,603	18,035,603
Other comprehensive income							
Net change in fair value of available-for-sale financial assets	5	-	-	50,000	-	-	50,000
Tax impact of change in fair value				(6,250)	-	-	(6,250)
Foreign currency translation differences		-	-	-	(140,273)	-	(140,273)
Total other comprehensive income		-	-	43,750	(140,273)	-	(96,523)
Total comprehensive income for the year		$-	$-	$43,750	$(140,273)	$18,035,603	$17,939,080
Transactions with shareholders of the Company, recognized directly in equity							
Contributions by and distributions to shareholders of the Company							
Non-cash stock based compensation	10	$-	$1,817,433	$-	$-	$-	$1,817,433
Dividends to shareholders	8	-	-	-	-	(24,959,880)	(24,959,880)
Options exercised in the period	8	673,150	(65,650)	-	-	-	607,500
Payments in lieu of dividends on RSUs	10	-	-	-	-	(241,738)	(241,738)
Shares issued after management RSU vesting	8	3,447,800	(3,447,800)	-	-	-	-
Shares issued in the period	8	49,042,500	-	-	-	-	49,042,500
Share issue costs, net of tax	8	(2,066,038)	-	-	-	-	(2,066,038)
Shares issued in lieu of dividends on RSUs	10	96,600	-	-	-	-	96,600
Total transactions with Shareholders of the Company		51,194,012	(1,696,017)	-	-	(25,201,618)	24,296,377
Balance at December 31, 2012		$252,016,172	$2,930,483	$2,336,689	$(265,220)	$21,731,093	$278,749,217

Alaris Royalty Corp.

Consolidated statement of cash flows

For the years ended December 31

	Note	2012	2011
Cash flows from operating activities			
Earnings from the year		$18,035,603	$34,712,444
Adjustments for:			
Finance costs		1,033,392	1,235,348
Deferred income tax expense	6	5,978,701	7,661,200
Depreciation and amortization	7	107,633	143,244
Gain on sale of intangible asset and reduction of partner interests		-	(27,707,533)
(Gain)/Loss on foreign exchange forward contract		3,750	(21,864)
Unrealized foreign exchange loss		241,794	183,060
Non-cash stock-based compensation	10	1,901,683	1,978,727
		27,302,556	18,184,626
Change in:			
-trade and other receivables		26,037	(2,755,165)
-prepayments		(63,303)	223,676
-trade and other payables		231,851	192,303
Cash generated from operating activities		27,497,141	15,845,440
Finance costs		(1,033,392)	(1,235,348)
Net cash from operating activities		$26,463,749	$14,610,092
Cash flows from investing activities			
Acquisition of equipment	7	(9,835)	(12,979)
Acquisition of Preferred LP Units	5	(91,141,585)	(78,948,286)
Proceeds from sale of intangible asset and reduction of partner interests		-	65,000,000
Net cash used in investing activities		$(91,151,420)	$(13,961,265)
Cash flows from financing activities			
New share capital, net of share issue costs	8	46,286,377	37,830,223
Proceeds from exercise of warrants	8	-	3,988,875
Proceeds from exercise of options	8	607,500	112,675
Repayment of debt	9	(49,000,000)	(66,700,000)
Proceeds from debt	9	92,500,000	44,000,000
Promissory notes issued	5	(1,250,000)	-
Dividends paid	8	(24,464,678)	(17,560,350)
Payments in lieu of dividends on RSUs		(241,738)	(248,653)
Net cash used in financing activities		$64,437,461	$1,422,770
Net increase/(decrease) in cash and cash equivalents		(250,210)	2,071,597
Cash and cash equivalents, Beginning of year		3,888,465	1,816,868
Cash and cash equivalents, End of year		$3,638,255	$3,888,465

1. Reporting entity:

Alaris is a company domiciled in Calgary, Alberta, Canada. The consolidated financial statements of the Company as at and for the year ended December 31, 2012 comprise the Company and its subsidiaries (together referred to as the “Corporation”). The Corporation’s Canadian operations are conducted through a partnership. The Corporation’s American operations are conducted through a Delaware Corporation formed on October 21, 2011. The Corporation’s operations consist primarily of investments in private operating entities, typically in the form of preferred limited partnership interests, preferred interest in limited liability corporations in the United States, or long-term license and royalty arrangements. The Corporation also has a wholly-owned subsidiary in The Netherlands.

2. Statement of compliance:

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

These consolidated financial statements were approved by the Board of Directors on March 13, 2013.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Available-for-sale financial assets (Preferred LP units and Preferred LLC units) are measured at fair value with changes in fair value recorded in other comprehensive income
- Derivative financial instruments are measured at fair value

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars which is the Corporation’s functional currency.

(d) Use of estimates

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next twelve months are as follows:

Key assumptions used in discounted cash flow projections

Key assumptions used in the calculation of the fair value of available for sale financial assets are discount rates, terminal value growth rates and annual performance metric growth rates. See note 5 for details in respect of the calculation.

Utilization of tax losses

Management makes estimates on future taxable income that generates the calculations for the deferred income tax expense, assets and liabilities.

Income taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Management reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-Corporation balances and transactions, and any unrealized income and expenses arising from intra-Corporation transactions, are eliminated in preparing the consolidated financial statements.

(b) Revenue recognition

The Corporation recognizes revenue from the distributions and royalties it receives from the Private Company Partners as they become due under the partnership agreement, limited liability corporation agreement, or royalty agreement with each specific Partner.

(c) Financial instruments

(i) Non-derivative financial assets

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables are comprised of cash and cash equivalents, and trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash balances and banker’s acceptances with original maturities of three months or less.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the previous categories. The Corporation's investments in preferred partnership units and limited liability corporations are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented in fair value reserve. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

The Corporation's interest in the Partner companies is through ownership of Preferred units. The units do not constitute control or significant influence over the businesses as the units are predominantly non-voting (in some cases there are minority voting shares for structuring purposes only). The units do not include any residual benefits and the Corporation has no right to participate in management decisions except in certain instances outside the normal course of business (adding new debt, change of control, extraordinary capital expenses and material acquisitions and divestitures) and the Corporation is not involved in the financial or operating policies of the Partner company.

(ii) Derivative financial instruments

The Corporation holds derivative financial instruments to hedge its foreign currency exposure. The Corporation has entered into forward contracts equal to the monthly and quarterly flow of funds from its investments in Quetico and Agility, the Corporation's two foreign investments. The Corporation matched 100% of the 2013 scheduled distributions to the Canadian parent and 70% of the expected 2014 distributions resulting in an economic hedge of the foreign currency exposure. The fair value of the forward contracts will be estimated at each reporting date and any gain or loss on the contracts will be recognized in profit or loss.

(d) Share capital

Common shares

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

(e) Equipment

(i) Recognition and measurement

Equipment is measured at cost less accumulated depreciation.

(ii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of the asset. Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted if appropriate.

(f) Intangible assets

(i) Other intangible assets

Other intangible assets that are acquired by the Corporation have finite useful lives and are measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Amortization

Amortization is based on the cost of an asset less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets from the date that they are available for use. Intangible assets held by the Corporation include intellectual property and are amortized over the 80 year life of the license and royalty agreement. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(g) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(ii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying losses accumulated in fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

(h) Share based payment transactions

The grant-date fair value of share–based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(i) Finance costs

Finance costs comprise interest expense on borrowings, credit facility renewal fees, losses on disposal of available-for-sale financial assets, and fair value losses on financial assets at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset are recognized in profit or loss using the effective interest method.

(j) Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they related to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

(k) Earnings per Share

The Corporation presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise restricted share units and share options granted to employees.

(l) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Corporation’s entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

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

Foreign currency differences arising on retranslation are recognized in profit or loss, except for available for sale equity investments (except on impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss) which are recognized in other comprehensive income.

(m) Foreign operations

The assets and liabilities of foreign operations are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as a part of the gain or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

(n) New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Corporation, except for IFRS 9, Financial Instruments, which becomes mandatory for the Corporation's 2015 consolidated financial statements and could change the classification and measurement of financial assets. The Corporation does not plan to adopt this standard early and the extent of the impact has not yet been determined.

4. Financial risk management

Overview

The Corporation has exposure to the following risks from its use of financial instruments:

- credit risk and other price risk
- liquidity risk
- market risk
- foreign exchange risk

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. Management has established the Risk Management Committee, which is responsible for developing and monitoring the Corporation's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Corporation's risk management policies are established to identify and analyse the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Corporation's Audit Committee oversees how management monitors compliance with the Corporation's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Corporation. The Audit Committee undertakes both regular and *ad hoc* reviews of risk management controls and procedures.

Credit Risk and Other Price Risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investments. Concentrations of credit risk exist when a significant proportion of the Corporation's assets are invested in a small number of individually significant investments, and investments with similar characteristics and/or subject to similar economic, political and other conditions that may prevail. The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Corporation's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. Approximately 21 percent (year ended December 31, 2011 - 43 percent) of the Corporation's revenue in the year ended December 31, 2012 is attributable to one Private Company Partner.

Other price risk is the risk that future cash flows associated with portfolio investments will fluctuate. Cash flow from investments is generally based on a percentage of the investments' gross revenue, same store sales, gross margin or other similar revenue. Accordingly, to the extent that the financial performance of the investment declines in respect of the relevant performance metric, cash payments to the Corporation will decline. Portfolio investment agreements allow for the repayment of investments at the option of the portfolio entity, and such repayment could affect future cash flows.

The Corporation is exposed to credit related losses on current and future amounts receivable pursuant to investment agreements. In the event of non-performance by Partners, future royalty and distribution revenue from the investments could be reduced, resulting in impairment of investment values. The investment agreements provide that payments are receivable monthly no later than the last day of the month.

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing in less than 90 days. The Corporation manages the credit exposure related to short-term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper. The Corporation held cash and cash equivalents of $3,638,255 at December 31, 2012 (December 31, 2011 - $3,888,465), which represents its maximum credit exposure on these assets.

The carrying amount of investments, trade and other receivables, promissory notes, and cash and cash equivalents represents the maximum credit exposure. The Corporation does not have an allowance for doubtful accounts as at December 31, 2012 and did not provide for any doubtful accounts nor was it required to write-off any receivables or investments during the year ended December 31, 2012. The items in accounts receivable were current at December 31, 2012.

Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

Typically the Corporation ensures that it has sufficient cash on hand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. In addition, the Corporation maintains a $50.1 million, 364 day revolving credit facility, and has $50 million balance drawn at December 31, 2012 ($6.5 million at December 31, 2011) that was reduced to $4 million subsequent to year end when the Corporation issued new equity. The Corporation has the following financial instruments that mature as follows:

	Total	0-6 months	6 mo-1 yr	1-2 years	3-4 years
Accounts payable and accrued liabilities	$ 1,805,561	$ 1,805,561	$ -	$ -	$ -
Dividends payable	2,345,347	2,345,347	-	-	-
Income taxes payable	40,585	40,585	-	-	-
Bank indebtedness	50,000,000	-	-	33,333,333	16,666,667
Total	$ 54,191,493	$ 4,191,493	$ -	$ 33,333,333	$ 16,666,667

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. All such transactions are carried out within the guidelines set by the Risk Management Committee.

Foreign currency exchange rate risk and commodity price risk

As a result of the Quetico and Agility investments in the United States, the Corporation has some exposure to foreign currency exchange rate risk. The Corporation purchased forward exchange rate contracts matching the expected distributions in US dollars throughout 2013 and also for 70% of the expected distributions in 2014. The Corporation intends to purchase additional contracts each quarter so that two years of distributions would be hedged against movement in the US Dollar compared to the Canadian dollar. The Corporation had no commodity price risk for the year ended December 31, 2012.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate fluctuations on its bank debt that bears a floating rate of interest. As at December 31, 2012, if interest rates had been 1% lower with all other variables held constant, net income for the year would have been approximately $130,000 higher, due to lower interest expense. An equal and opposite impact would have occurred to net income had interest rates been 1% higher.

The Corporation had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2012.

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital, a 364 day revolving credit facility and retained earnings. The Board of Directors monitors the return on capital as well as the level of dividends to common shareholders.

The Corporation manages capital by monitoring certain debt covenants set out in its credit facility. The Corporation has a maximum senior debt to contracted EBITDA of 1.7:1 (1.31:1 at December 31, 2012). EBITDA is defined as net income before interest expense, income taxes, depreciation and amortization and non-cash stock-based compensation expenses. Additionally, a minimum tangible net worth requirement of $240.6 million is in place (Actual: $278.7 million at December 31, 2012). Tangible net worth is defined as subordinated debt plus shareholders equity. The Corporation was in compliance with all debt covenants at December 31, 2012. In order to acquire more distributions and royalties, the Corporation can access its credit facility and above that needs to access public equity markets to fund the acquisitions and manage the business within the bank covenants. There were no changes in the Corporation's approach to capital management during the year ended December 31, 2012.

Fair Value of Financial Instruments

The Corporation's financial instruments as at December 31, 2012 and December 31, 2011 include cash and cash equivalents, trade and other receivables, promissory note receivable, Preferred LP units, accounts payable and accrued liabilities, and loans and borrowings. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity. Loans and borrowings bears interest at a floating market rate and accordingly the fair market value approximates the carrying value. The fair values of the available for sale investments are estimated using an approach described in note 5.

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- 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).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following items shown on the consolidated statement of financial position as at December 31, 2012 and 2011, are measured at fair value on a recurring basis using level 1 or level 2 inputs. The Corporation has no level 3 items and during the years ended December 31, 2012 and 2011, there were no transfers between level 1 or level 2 classified assets and liabilities.

December 31, 2012		Level 1		Level 2		Total
Cash and cash equivalents	$	3,638,255	$	-	$	3,638,255
Foreign exchange derivatives		-		18,113		18,113
Preferred LP units		-		298,226,402		298,226,402
	$	3,638,255	$	298,244,515	$	301,882,770
December 31, 2011						
Cash and cash equivalents	$	3,888,465	$	-	$	3,888,465
Foreign exchange derivatives		-		21,864		21,864
Preferred LP units		-		207,408,290		207,408,290
	$	3,896,652	$	207,430,154	$	211,318,619

5. Investments

Preferred LP Units:

December 31, 2012		Acquisition Cost		Capitalized Cost		Net Cost		Fair Value
LifeMark Health	$	36,450,000	$	499,894	$	36,949,894	$	65,500,000
LMS		51,000,000		333,280		51,333,280		25,800,000
Solowave		32,500,000		511,253		33,011,253		31,500,000
KMH		54,800,000		504,513		55,304,513		55,376,519
Killick		36,250,000		257,544		36,507,544		37,600,000
Quetico		26,808,540		860,337		27,668,877		27,668,877
Labstat		41,200,000		518,944		41,718,944		41,718,944
Agility Health		12,457,500		604,562		13,062,062		13,062,062
	$	291,466,040	$	4,090,327	$	295,556,367	$	298,226,402
December 31, 2011		**Acquisition Cost**		**Capitalized Cost**		**Net Cost**		**Fair Value**
LifeMark Health	$	36,450,000	$	499,894	$	36,949,894	$	65,500,000
LMS		51,000,000		333,280		51,333,280		25,300,000
Solowave		32,500,000		511,253		33,011,253		33,050,000
KMH		27,400,000		427,995		27,827,995		27,900,000
Killick		27,250,000		257,544		27,507,544		27,500,000
Quetico		27,357,300		800,990		28,158,290		28,158,290
	$	201,957,300	$	2,830,956	$	204,788,256	$	207,408,290

Assumptions used in fair value calculations:

The Corporation estimated the fair value of the available for sale financial assets (Preferred LP Units) by evaluating a number of different methods:

(a) A going concern value was calculated by calculating the discounted cash flow of the future expected distributions. Key assumptions used include the discount rate used in the calculation. For each individual Partner, the Corporation considered a number of different discount rate factors including what industry they operated in, the size of the company, the health of the balance sheet and the ability of the historical earnings to cover the future distributions. This was supported by the historical yield of the original investment, current investing yields, and the current yield of Alaris' publicly traded shares and of other similar public companies.

(b) A redemption or retraction value was calculated using the formula specified in each of the Partnership agreements alongside an assessment of the likelihood of a redemption of the Preferred Units.

(c) A liquidation value was calculated using the formula specified in each of the Partnership agreements while considering an estimate of the current value of the private company to determine if there would be sufficient value to cover the liquidation amount.

From this analysis, management of the Corporation determined the fair value of the Preferred LP Units for each individual Partner. Below is a summary of the fair value adjustments in 2012 and 2011.

	Opening Fair Value	Additions	Disposals	Foreign Exchange Adjustment	Fair Value Adjustment	Closing Fair Value
2012						
LifeMark Health	$ 65,500,000	$ -	$-	$-	$ -	$ 65,500,000
LMS	25,300,000	-	-	-	500,000	25,800,000
Solowave	33,050,000	-	-	-	(1,550,000)	31,500,000
KMH	27,900,000	27,476,518	-	-	-	55,376,519
Killick	27,500,000	9,000,000	-	-	1,100,000	37,600,000
Quetico	28,158,290	59,347	-	(548,760)	-	27,668,877
Labstat	-	41,718,944	-	-	-	41,718,944
Agility Health	-	13,025,368	-	36,694	-	13,062,062
	$ 207,408,290	$ 91,280,177	$-	(512,066)	$ 50,000	$ 298,226,402
2011						
LifeMark Health	$ 120,000,000	$ 342,558	$(55,200,000)	-	$ 357,442	$ 65,500,000
LMS	24,667,000	-	-	-	633,000	25,300,000
Solowave	32,995,000	16,466	-	-	72,005	33,050,000
KMH	5,245,000	22,582,995	-	-	38,534	27,900,000
Killick	-	27,507,544	-	-	(7,544)	27,500,000
Quetico	-	28,158,290	-	-	-	28,158,290
	$ 182,907,000	$ 78,607,853	$(55,200,000)	-	$ 1,093,437	$ 207,408,290

The Corporation holds intangible assets as follows:

Intangible Assets:

	Acquisition Cost	Capitalized Cost	Accumulated Amortization	Net Cost
December 31, 2012				
End of the Roll	$ 7,200,000	74,920	$ (704,719)	$ 6,570,201
December 31, 2011				
End of the Roll	$ 7,200,000	74,920	$ (613,782)	$ 6,661,138

The Corporation recorded royalty and distribution revenue as follows:

Royalties and distributions:

		2012		2011
LifeMark Health	$	6,885,000	$	9,224,776
Solowave		4,960,000		5,000,000
KMH		4,755,954		1,280,449
Killick		4,389,015		2,080,645
Quetico		4,248,300		452,864
Labstat		3,609,878		-
LMS		2,003,046		1,678,949
End of the Roll		1,169,552		1,249,309
Agility Health		68,660		-
MEDIchair		-		530,968
	$	32,089,405	$	21,497,960

I – Preferred LP Units

(a) Investment in LifeMark Health Limited Partnership (“LifeMark Health”):

At the beginning of 2011, the Corporation held 900,000 class A preferred partnership units ("LifeMark A Units") and 5,850,000 class B preferred partnership units ("LifeMark B Units") in LifeMark Health (the "LifeMark Investment"). On June 9, 2011, the Corporation entered into a plan of arrangement that resulted in a return of capital, the elimination of the Class A and B units, and a reduction of the annual distributions to $6.75 million for the twelve months following the close of the transaction. Going forward, Alaris holds 6,750,000 Preferred Units and will receive an annual preferred distribution, in priority to distributions on LifeMark Health’s other partnership units, from LifeMark Health of $6.75 million in the twelve months following close. This represents approximately 50% of the pre-Transaction expected 2011 distribution to Alaris from the LifeMark Group. The post-Transaction annual Distribution has a guaranteed increase of 4% per year thereafter and distributions are receivable monthly. Prior to the return of capital, the fair value of the LifeMark Investment was $120 million. The prior period gain of $23.8 million is the difference between the $55 million in proceeds and 46% of the book value of the original investment.

The LifeMark Group became a subsidiary of Centric Health Corporation (“Centric”), who acquired all of the issued and outstanding residual units of LifeMark Health and all of the intellectual property of Life Mark Health and MEDIchair, pursuant to the Transaction. The Transaction was completed by way of a plan of arrangement under the *Business Corporations Act* (Alberta). Alaris and Centric are the only limited partners in LifeMark Health.

Centric has the option at any time after June 9, 2013 to repurchase all (but not less than all) of the LifeMark Preferred Units for $65.5 million. Starting on June 9, 2013 the repurchase price will increase 4% per year.

(b) Investment in Lower Mainland Steel Limited Partnership (“LMS”):

The Corporation holds 510,000 Preferred partnership units ("LMS Units") in Lower Mainland Steel (the "LMS Investment"). 150,000 of the LMS Units were acquired on February 2, 2007 for an aggregate acquisition cost of $15 million. Alaris acquired another 360,000 LMS Units on December 21, 2007 for an aggregate acquisition cost of $36 million.

Pursuant to the LMS partnership agreement (the "LMS Partnership Agreement") dated April 2, 2007 and as amended December 21, 2007, the LMS Units entitle the Corporation to receive an annual preferred distribution (the “Preferred Distribution") in priority to distributions on LMS’ other partnership units. The base is in two distinct portions and is adjusted at two points (January 1st and April 1st) in each subsequent twelve month period to the Preferred Distribution for the prior twelve month period multiplied by the percentage increase or decrease in LMS’ Gross Profit (as defined in the LMS Partnership Agreement) for the most recently completed fiscal year. Distributions on the LMS Units are receivable monthly.

LMS has the option at any time after April 1, 2010 to repurchase all (but not less than all) of the LMS Units at a pre-negotiated premium to the original purchase price.

(c) Investment in KMH Limited Partnership (“KMH”):

The Corporation holds 548,000 Preferred partnership units ("KMH Units") in KMH Limited Partnership (the "KMH Investment"). 50,000 of the KMH Units were acquired in 2010 for an aggregate acquisition cost of $5 million, 224,000 KMH Units were acquired in 2011 for an aggregate acquisition cost of $22.4 million, and 274,000 KHM Units were acquired in 2012 for an aggregate acquisition cost of $27.4 million.

In December 2012, the Corporation loaned $2.5 million pursuant to a demand note (interest at 8.5% per annum) to temporarily bridge financing on one of the acquisitions.

Pursuant to the KMH partnership agreement (the "KMH Partnership Agreement") dated April 27, 2010, the KMH Units entitle the Corporation to receive an annual preferred distribution (the “Preferred Distribution") in priority to distributions on KMH’s other partnership units in an amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in KMH’s Same Clinic Sales for the previous fiscal year. Distributions on the KMH Units are receivable monthly.

KMH has the option at any time after April 27, 2013 to repurchase all (but not less than all) of the KMH Units at a pre-negotiated premium to the original purchase price.

(d) Investment in Solowave Design, LP (“Solowave”):

The Corporation holds 3,250,000 Preferred partnership units ("Solowave Units") in Solowave Design Limited Partnership (the "Solowave Investment") acquired on December 16, 2010 for an aggregate acquisition cost of $32.5 million.

Pursuant to the Solowave partnership agreement (the "Solowave Partnership Agreement") dated December 16, 2010, the Solowave Units entitle the Corporation to receive an annual preferred distribution (the “Preferred Distribution") in priority to distributions on Solowave’s other partnership units in an amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in Solowave’s Same Customer Net Sales for the previous fiscal year. Distributions on the Solowave Units are receivable monthly.

Solowave has the option at any time after December 16, 2013 to repurchase all (but not less than all) of the Solowave Units at a pre-negotiated premium to the original purchase price.

(e) Investment in Killick Aerospace, LP (“Killick”):

The Corporation holds 3,625,000 Preferred partnership units ("Killick Units") in Killick Aerospace Limited Partnership (the "Killick Investment"). 2,725,000 Killick Units were acquired on July 6, 2011 for an aggregate acquisition cost of $27.25 million and 900,000 Killick Units were acquired on December 24, 2012 for an aggregate acquisition cost of $9 million.

Pursuant to the Killick partnership agreement (the "Killick Partnership Agreement") dated July 6, 2011, the Killick Units entitle the Corporation to receive an annual preferred distribution (the “Preferred Distribution") in priority to distributions on Killick’s other partnership units in an amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in Killick’s Gross Revenue for the previous fiscal year, subject to a maximum increase or decrease of 4%. Distributions on the Killick Units are receivable monthly.

Killick has the option at any time after July 6, 2014 to repurchase all (but not less than all) of the Killick Units at a pre-negotiated premium to the original purchase price.

(f) Investment in Quetico, LLC (“Quetico”):

The Corporation, through its wholly-owned subsidiary Alaris USA Inc., holds 1,250 Class B units (“Quetico Units”) in Quetico, LLC, an American corporation. The units were acquired on November 22, 2011 for an aggregate acquisition cost of $27.36 million (Canadian funds).

Pursuant to the Quetico LLC agreement (the "Quetico LLC Agreement") dated November 22, 2011, the Quetico Units entitle the Corporation to receive an annual preferred distribution (the “Preferred Distribution") in priority to distributions on Quetico’s other units in an amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in Quetico’s Gross Revenue for the previous fiscal year, subject to a maximum increase of 10% and a maximum decrease of 20%. Distributions on the Quetico Units are receivable monthly and are denominated in US dollars.

Quetico has the option at any time after November 22, 2014 to repurchase all (but not less than all) of the Quetico Units at a pre-negotiated premium to the original purchase price.

(g) Investment in Labstat International, LP (“Labstat”):

The Corporation holds 4,120,000 Preferred partnership units ("Labstat Units") in Labstat International Limited Partnership (the "Labstat Investment") acquired on June 9, 2012 for an aggregate acquisition cost of $41.2 million.

In June 2012, the Corporation loaned $1.25 million pursuant to a demand note (interest at 15.3% per annum) to temporarily bridge financing of the acquisition of the previous owners interest.

Pursuant to the Labstat partnership agreement (the "Labstat Partnership Agreement") dated June 9, 2012, the Labstat Units entitle the Corporation to receive an annual preferred distribution (the “Preferred Distribution") in priority to distributions on Labstat’s other partnership units in an amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in Labstat’s Gross Revenue for the previous fiscal year, subject to a maximum increase or decrease of 6%. Distributions on the Labstat Units are receivable monthly.

Labstat has the option at any time after June 9, 2015 to repurchase all (but not less than all) of the Labstat Units at a pre-negotiated premium to the original purchase price.

(h) Investment in Agility Health, LLC (“Agility Health”):

The Corporation, through its wholly-owned subsidiary Alaris USA Inc., holds 1,250 Class B units (“Agility Units”) in Agility Health, LLC, an American corporation. The units were acquired on December 12, 2012 for an aggregate acquisition cost of $12.46 million (Canadian funds).

Pursuant to the Agility Health LLC agreement (the "Agility LLC Agreement") dated December 19, 2012, the Agility Units entitle the Corporation to receive an annual preferred distribution (the “Preferred Distribution") in priority to distributions on Agility’s other units in an amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in Agility’s Same Clinic Sales for the previous fiscal year, subject to a maximum increase or decrease of 6%. Distributions on the Agility Units are receivable monthly and are denominated in US dollars.

Agility has the option at any time after December 19, 2015 to repurchase all (but not less than all) of the Agility Units at a pre-negotiated premium to the original purchase price.

II – Intangible Assets

(a) Investment in End of the Roll Carpet and Vinyl (“End of the Roll”):

On May 1, 2005, the Corporation purchased certain intellectual property (the "ER IP") from End of the Roll for an aggregate purchase price of $7.2 million pursuant to an acquisition agreement (the "ER Acquisition Agreement") dated May 1, 2005 (the "End of the Roll Investment"). The ER IP includes End of the Roll's trademarks, trade names, website, and proprietary system for operating franchises. The ER IP was subsequently licensed to End of the Roll for a term (the "Term") of 80 years pursuant to a license agreement (the "ER License Agreement") dated May 1, 2005 in consideration of an annual royalty (the "Royalty"). The Royalty for the first 12-month period from May 1, 2005 to April 30, 2006 was $1.2 million (the "Initial Royalty"). The Royalty for each subsequent 12-month period during the Term is calculated by increasing or decreasing the Royalty for End of the Roll's fiscal year just ended by the percentage change in Same Store Sales (as defined in the ER License Agreement), being generally the total sales of all franchisee retail stores that have been open for at least two years, over the fiscal year immediately preceding the fiscal year just ended. Royalty payments are receivable monthly.

End of the Roll has the option at any time after May 1, 2010 to repurchase the ER IP (and terminate the Royalty) at a pre-negotiated premium to the original purchase price.

(b) Investment in MEDIchair Ltd. (“MEDIchair”):

On September 12, 2005, the Corporation purchased certain intellectual property (the "MEDIchair IP") from MEDIchair for an aggregate purchase price of $6.5 million (the "MEDIchair Investment") pursuant to an acquisition agreement (the "MEDIchair Acquisition Agreement") dated September 12, 2005. The MEDIchair IP was subsequently licensed to MEDIchair for a term (the "Term") of 80 years pursuant to a license agreement (the "MEDIchair License Agreement") in 2005 in consideration of an annual royalty (the "Royalty"). From September 12, 2005 through June 9, 2011, the Corporation collected $6.33 million in royalties from MEDIchair.

On June 9, 2011, the Corporation sold all of the MEDIchair intellectual property for $10,000,000, a 54% premium to its original cost. Carrying value prior to the sale included amortization of $475,318 and was $6.1 million resulting in a $3.8 million gain in the period.

6. Income tax expense:

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The Corporation's consolidated effective tax rate for the year ended December 31, 2012 was 25% (year ended December 31, 2011 – 26.5%). The change in effective tax rate is in line with the Canadian government's gradual reduction in the corporate income tax rate.

Income tax expense is calculated by using the combined federal and provincial statutory income tax rates. The provision for income tax (deferred and current) differs from that which would be expected by applying statutory rates. A reconciliation of the difference is as follows:

		2012		2011
Earnings before income taxes	$	24,723,477	$	42,441,666
Combined federal and provincial statutory income tax rate		25%		26.5%
Expected income tax provision	$	6,180,869	$	11,247,041
Non-deductible expense		521,252		(571,013)
LP asset – fair value		-		(2,020,562)
Intangibles		-		(625,000)
Rate changes and other		(14,247)		(301,244)
	$	6,687,874	$	7,729,222

The income tax effect of the temporary differences that give rise to the Corporation's deferred income tax assets and liabilities are as follows:

		2012		2011
Deferred income tax assets (liabilities):				
Non-capital losses and unclaimed scientific research and development expenses ("SRED") net of partnership deferral	$	9,862,623	$	15,280,271
Equipment		53,829		94,504
Share issue costs		1,423,652		1,296,091
Intangible assets		(1,653,917)		(1,665,285)
Investment tax credits		(2,730,598)		(2,730,598)
Preferred partnership units		1,686,374		1,693,001
Derivatives		31,162		-
	$	8,673,125	$	13,967,984

As at December 31, 2012, the Corporation has unused federal investment tax credits which expire from time to time as follows:

2017	$	133,652
2018		150,798
2019		1,623,342
2020		1,935,046
2021		1,295,097
2022		3,296,237
2023		1,840,597
2024		647,624
	$	10,922,393

The Corporation has research and development expenditures not deducted at the end of the year, to be deducted over an indefinite period for an amount of $39,450,350.

Movement in deferred tax balances during the year	Deferred Income Taxes
Balance at January 1, 2011	$ 18,158,192
Recognized in profit and loss	(7,611,222)
Recognized directly in equity	555,694
Recognized in other comprehensive income	2,865,317
Balance at December 31, 2011	$ 13,967,981
Recognized in profit and loss	(5,978,691)
Recognized directly in equity	690,085
Recognized in other comprehensive income	(6,250)
Balance at December 31, 2012	$ 8,673,125

7. Equipment:

Equipment consists of leasehold improvements, furniture and fixtures, and computer equipment. The amounts are net of accumulated depreciation of $153,931 (December 31, 2011 - $137,234). During the year ended December 31, 2012, the Corporation acquired assets with a cost of $9,835 (2011 - $12,979).

8. Share capital:

Issued Common Shares	Number of Shares	Amount
Balance at January 1, 2011 (Voting shares)	15,759,939	$ 149,402,328
Non-voting shares	666,665	8,000,000
Balance at January 1, 2011 (Voting, non-voting)	16,426,604	$ 157,402,328
Shares issued in lieu of dividends on RSUs	10,331	152,550
Warrants exercised in the period	531,850	3,988,875
Fair value of warrants exercised in the period	-	390,794
Options exercised in the period	10,375	126,696
Non-voting shares converted to voting	(666,665)	-
Non-voting shares converted to voting	666,665	-
Shares issued by short form prospectus in Dec 2011	2,464,800	40,053,000
Short form prospectus costs in Dec 2011	-	(2,222,777)
Income tax benefit of share issue costs	-	555,694
Issued after director RSU vesting	31,250	375,000
Balance at December 31, 2011 (Voting)	19,475,210	$ 200,822,160
Issued by short form prospectus in June 2012	2,515,000	49,042,500
Short form prospectus costs in June 2012	-	(2,756,123)
Income tax benefit of share issue costs	-	690,085
Issued after management RSU vesting	290,650	3,447,800
Options exercised in the period	50,625	607,500
Fair value of options exercised in the period	-	65,650
Shares issued in lieu of dividends on RSUs	5,157	96,600
Balance at December 31, 2012 (Voting)	22,336,642	$ 252,016,172

The Corporation has authorized, issued and outstanding, 22,336,642 voting common shares as at December 31, 2012.

	2012	2011
Weighted average shares outstanding, basic	20,934,869	17,036,346
Effect of outstanding options	335,943	174,994
Effect of outstanding RSUs	205,181	384,400
Weighted average shares outstanding, fully diluted	21,475,993	17,595,740

Dividends

The following dividends were declared and paid by the Corporation:

For the first five months of 2012, the Corporation declared a dividend of $0.095 per common share, for the next six months of 2012, the Corporation declared a dividend of $0.10 per common share and in December the Corporation declared a dividend of $0.105 per common share ($24,959,880 in aggregate). For the year ended December 31, 2011, dividends of $18,014,242 were declared.

9. Debt:

The Corporation has a $50,100,000 secured revolving credit facility with a syndicate of Canadian chartered banks. On December 31, 2012, the facility was temporarily extended to $55,100,000 until January 31, 2013. In June 2012, the Corporation drew on the facility for $43,000,000 to fund the Labstat transaction. From funds out of the June 2012 public offering, the Corporation then repaid $46,000,000 of that debt. In July and November 2012, the Corporation drew $20,000,000 for further contributions to KMH. In December the Corporation drew $12,500,000 to fund the Agility transaction, $8,700,000 for a further contribution to KMH and $8,300,000 for a further contribution to Killick. At December 31, 2012, the Corporation has $50,000,000 in senior debt outstanding. Interest is payable at the lenders' prime rate plus 3.0% (6.0% at December 31, 2012). The term out date under the credit facility is December 31, 2013. If monies are drawn, and if an extension is not received by December 31, 2013, the facility will be repaid in thirty-six equal monthly installments commencing January 31, 2014. There are financial covenants under this facility and at December 31, 2012, the Corporation is in compliance with each of the covenants based on a letter received by the Corporation from the lending syndicate clarifying the exclusion of certain non-cash and extraordinary amounts in the calculation of the covenants for the remainder of the term of the agreement.

Total Debt Continuity	Amount
Balance at January 1, 2011	$ 29,200,000
Senior debt repayment, February 2011	$ (3,000,000)
Senior debt repayment, June 2011	(26,200,000)
Senior debt advance, October 2011	14,500,000
Senior debt advance, November 2011	29,500,000
Senior debt repayment, December 2011	(37,500,000)
Balance at December 31, 2011	$ 6,500,000
Senior debt repayment, February 2012	$ (2,000,000)
Senior debt repayment, May 2012	(1,000,000)
Senior debt advance, June 2012	43,000,000
Senior debt repayment, June 2012	(46,000,000)
Senior debt advance, July 2012	2,000,000
Senior debt advance, November 2012	18,000,000
Senior debt advance, December 2012	29,500,000
Balance at December 31, 2012	$ 50,000,000

10. Share-based payments:

The Corporation has a Restricted Share Unit Plan ("RSU Plan") and a Stock Option Plan as approved by shareholders at a special shareholders meeting on July 31, 2008 that authorizes the Board of Directors to grant awards of RSUs and Options subject to a maximum of ten percent of the issued and outstanding common shares of the Corporation.

The RSU Plan will settle in voting common shares which may be issued from treasury or purchased on the Toronto Stock Exchange. The Corporation has reserved 720,886 and issued 205,181 RSUs to management and Directors as of December 31, 2012. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (111,431) do not vest until the end of the three-year period (September 2015) and are subject to certain performance conditions relating to operating cash flow per share. The stock-based compensation expense relating to the RSU Plan is based on the issue price at the time of grant and management's estimate of the future performance conditions and will be amortized over the thirty-six month vesting period. Payments in lieu of dividends on the unvested RSUs are made monthly in cash in accordance with the Corporation's dividend policy.

For the year ended December 31, 2012, the Corporation incurred stock-based compensation expenses of $1,901,683 (2011 - $1,978,727) which includes: $663,185 (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2011 - $1,247,452); $84,250 (non-cash expense) for shares issued in the year in lieu of dividends under the RSU Plan (2011 - $152,550); and $1,154,248 (non-cash expense) for the amortization of the fair value of outstanding stock options (2011 - $578,725). The Corporation has reserved 1,507,715 and issued 1,406,161 options that vest over a four-year period and expire in five years.

The options outstanding at December 31, 2012, have an exercise price in the range of $7.27 to $23.53 and a weighted average contractual life of 3.5 years (2011 – 3.7 years).

	Weighted Avg Exercise Price 2012	Number of Options 2012	Weighted Avg Exercise Price 2011	Number of Options 2011
Outstanding at January 1	$12.96	929,775	$11.01	610,150
Exercised during the year	12.00	(50,625)	10.86	(10,375)
Granted during the year	23.53	527,011	16.32	330,000
Outstanding at December 31	16.92	1,406,161	12.96	929,775
Exercisable at December 31	$11.88	461,775	$11.06	279,956

The following table summarizes the options outstanding and exercisable as at December 31, 2012:

Exercise price	Number outstanding	Weighted average remaining life (years)	Number exercisable
$7.27	97,500	1.93	73,125
$11.56	291,000	2.98	145,500
$12.00	160,650	0.83	160,650
$15.48	130,000	3.59	32,500
$16.87	200,000	3.95	50,000
$23.53	527,011	4.68	-
	1,406,161	3.49	461,775

The fair value of the options was calculated using a Black-Scholes model with the following assumptions:

	Oct 2008	Dec 2009	Dec 2010	Aug 2011	Dec 2011	Sept 2012
Dividend yield	12.00%	10.50%	8.72%	6.68%	6.79%	5.12%
Expected volatility	38.00%	56.0%	51.79%	46.49%	45.08%	37.73%
Risk free rate of return	2.66%	2.21%	2.23%	1.61%	1.16%	1.27 %
Expected life	4.325	4.325	4.325	4.325	4.325	4.325
Weighted average value	$ 1.2840	$ 1.5639	$ 2.5887	$ 3.5070	$ 3.5666	$ 4.7096

11. Related parties:

In 2011, the Corporation formed a wholly-owned subsidiary, Alaris Cooperatief, U.A., a cooperative in The Netherlands. The Corporation also formed a wholly-owned subsidiary, Alaris USA Inc, a Delaware Corporation. All intercompany loans, interest and dividends have been eliminated upon consolidation.

In addition to their salaries, the Corporation also provides long-term compensation in the form of options and RSUs. Key management personnel compensation comprised the following:

	2012	2011
Base salaries and benefits	$678,414	$638,610
Bonus	660,000	900,000
Non cash stock-based compensation	1,112,955	1,205,925
	$2,451,369	$2,744,535

12. Commitments:

In 2009, the Corporation signed a seven-year lease at a new location that commenced December 1, 2009, ending November 30, 2016. The Corporation's annual commitment under this lease is as follows:

2013	$	166,354
2014		166,354
2015		166,354
2016		152,491
	$	651,554

13. Subsequent events:

Subsequent to December 31, 2012, the Corporation entered into a partnership agreement with SHS Services Management effective March 2, 2013. Pursuant to the Partnership, Alaris contributed $15,000,000 to SHS in exchange for an initial annual preferred distribution of $2,500,000. The Corporation issued 181,821 shares in exchange for $5,000,000 of the proceeds.

Subsequent to December 31, 2012, the Corporation issued $6 million in convertible promissory notes to LMS. The first note ($3 million) can be repaid up until December 30, 2013 and thereafter can be converted into additional preferred LMS Units at Alaris' option. The second note ($3 million) automatically converts to preferred LMS Units on December 31, 2013. For the purposes of calculating the distributions on the new LMS Units in 2014, the base rate on the promissory notes is set at 16% and will be adjusted by the change in gross profit along with the distributions on the original LMS Units.

Subsequent to December 31, 2012, the Corporation issued 2,461,000 shares by way of short form prospectus; 194,650 shares as a result of the exercise of options; and 31,250 shares that vested to Directors under the RSU Plan. At March 13, 2013, the Corporation had 25,209,113 common shares outstanding.

Subsequent to December 31, 2012, the Corporation repaid $46 million of bank indebtedness with proceeds from the aforementioned offering and then drew $10 million on the facility to fund the contribution to SHS.