Consolidated Financial Statements of

ALARIS ROYALTY CORP.

Audited statements for the years ended December 31, 2013 and 2012

KPMG LLP
205 - 5th Avenue SW
Suite 3100, Bow Valley Square 2
Calgary AB
T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

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, 2013 and December 31, 2012, 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, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Accountants

KPMG LLP

March 7, 2014
Calgary, Canada

Alaris Royalty Corp.

Consolidated statement of financial position

	Note	December 31 2013	December 31 2012
Assets			
Cash and cash equivalents		$8,998,342	$3,638,255
Prepayments		125,543	182,811
Trade and other receivables		955,831	899,529
Foreign exchange contracts	4	-	18,113
Promissory note receivable	5	8,500,000	2,500,000
Current Assets		18,579,716	7,238,708
Promissory note receivable		6,915,000	1,250,000
Equipment	5	59,825	59,881
Intangible assets	5	6,479,265	6,570,201
Preferred LP and LLC Units	5	433,988,295	298,226,402
Investment tax credit receivable	6	10,922,393	10,922,393
Deferred income taxes	6	3,785,015	8,673,125
Non-current assets		462,149,793	325,702,002
Total Assets		$480,729,509	$332,940,710
Liabilities			
Accounts payable and accrued liabilities		$1,361,588	$1,805,561
Dividends payable		3,443,243	2,345,347
Foreign exchange contracts	4	633,801	-
Income taxes payable	6	1,031,701	40,585
Current Liabilities		6,470,333	4,191,493
Loans and borrowings	9	44,500,000	50,000,000
Non-current liabilities		44,500,000	50,000,000
Total Liabilities		$50,970,333	$54,191,493
Equity			
Share capital	8	413,237,576	252,016,172
Equity reserve		5,688,079	2,930,483
Fair value reserve		(4,883,951)	2,336,689
Translation reserve		1,201,883	(265,220)
Retained earnings		14,515,589	21,731,093
Total Equity		$429,759,176	$278,749,217
Total Liabilities and Equity		$480,729,509	$332,940,710

Commitments and contingencies 12

Subsequent events 13

On behalf of the Board:

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

Director (signed) *"Mary Ritchie"*

Alaris Royalty Corp.

Consolidated statement of comprehensive income

For the years ended December 31

	Note	2013	2012
Revenues			
Royalties and distributions	5	$51,576,277	$32,089,405
Interest and other	5	1,130,727	20,259
Gain on reduction of LifeMark interest	5	13,052,160	-
Impairment loss on SHS	5	(15,512,013)	-
Unrealized loss on foreign exchange contracts	4	(651,915)	(3,750)
Total Revenue		49,595,236	32,105,914
Salaries and benefits	11	2,679,570	1,796,174
Corporate and office		1,371,188	971,072
Legal and accounting fees		919,791	1,330,689
Non-cash stock-based compensation	10,11	3,808,518	1,901,683
Bad debts		575,000	-
Depreciation and amortization		106,283	107,633
Subtotal		9,460,350	6,107,251
Earnings from operations		40,134,886	25,998,663
Finance costs		1,677,102	1,033,392
Unrealized foreign exchange loss/(gain)		(1,909,530)	241,794
Earnings before taxes		40,367,314	24,723,477
Deferred income tax expense	6	8,257,300	5,978,701
Current income tax expense	6	2,286,517	709,173
Total income tax expense	6	10,543,817	6,687,874
Earnings		29,823,497	18,035,603
Other comprehensive income			
Net change in fair value of Preferred LP units	5	4,800,000	50,000
Tax impact of change in fair value		(600,000)	(6,250)
Realized gain/(loss) on reduction of partnership interest	5	(13,052,160)	-
Tax impact of realized gain		1,631,519	-
Foreign currency translation differences		1,467,103	(140,273)
Other comprehensive income for the year, net of income tax		(5,753,537)	(96,523)
Total comprehensive income for the year		$ 24,069,960	$ 17,939,080
Earnings per share			
Basic earnings per share		$1.12	$0.86
Fully diluted earnings per share		$1.09	$0.84
Weighted average shares outstanding			
Basic		26,695,896	20,934,899
Fully Diluted		27,408,071	21,475,993

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 year		-	-	-	-	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 changes in equity

For the year ended December 31, 2013

	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2013		$252,016,172	$2,930,483	$2,336,689	$(265,220)	$21,731,093	$278,749,217
Total comprehensive income for the year							
Earnings for the year		-	-	-	-	29,823,497	29,823,497
Other comprehensive income							
Net change in fair value of available-for-sale financial assets	5	-	-	4,800,000	-	-	4,800,000
Tax impact of change in fair value		-	-	(600,000)	-	-	(600,000)
Realized gain on LifeMark redemption		-	-	(13,052,160)	-	-	(13,052,160)
Tax impact on realized gain		-	-	1,631,520	-	-	1,631,520
Tax impact of change in fair value		-	-	-	-	-	-
Foreign currency translation differences		-	-	-	1,467,103	-	1,467,103
Total other comprehensive income		-	-	(7,220,640)	1,467,103	-	(5,753,537)
Total comprehensive income for the year		$-	$-	$(7,220,640)	$1,467,103	$29,823,497	$24,069,960
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	$-	$3,808,518	$-	$-	$-	$3,808,518
Dividends to shareholders	8	-	-	-	-	(36,746,211)	(36,746,211)
Options exercised in the period	8	2,711,476	(564,250)	-	-	-	2,147,226
Payments in lieu of dividends on RSUs	10	-	-	-	-	(292,790)	(292,790)
Shares issued after director RSU vesting	8	486,672	(486,672)	-	-	-	-
Shares issued in the period	8	165,036,300	-	-	-	-	165,036,300
Share issue costs, net of tax	8	(7,013,044)	-	-	-	-	(7,013,044)
Total transactions with Shareholders of the Company		161,221,404	2,757,596	-	-	(37,039,001)	126,939,999
Balance at December 31, 2013		$413,237,576	$5,688,079	$(4,883,951)	$1,201,883	$14,515,589	$429,759,176

Alaris Royalty Corp.

Consolidated statement of cash flows

For the years ended December 31

	Note	2013	2012
Cash flows from operating activities			
Earnings from the year		$29,823,497	$18,035,603
Adjustments for:			
Finance costs		1,677,102	1,033,392
Deferred income tax expense	6	8,257,300	5,978,701
Depreciation and amortization	7	106,282	107,633
Bad debts expense	5	575,000	-
Gain on reduction of interest in LifeMark		(13,052,160)	-
Impairment loss on SHS		15,512,013	-
Unrealized loss on foreign exchange forward contract		651,915	3,750
Unrealized foreign exchange (gain)/loss		(1,909,530)	241,794
Non-cash stock-based compensation	10	3,808,518	1,901,683
		45,449,937	27,302,556
Change in:			
-trade and other receivables		(631,302)	26,037
-prepayments		57,268	(63,303)
-trade and other payables		547,143	231,851
Cash generated from operating activities		45,423,046	27,497,141
Finance costs		(1,677,102)	(1,033,392)
Net cash from operating activities		$43,745,944	$26,463,749
Cash flows from investing activities			
Acquisition of equipment	7	(15,290)	(9,835)
Acquisition of Preferred LP Units	5	(173,282,648)	(91,141,585)
Proceeds from reduction of LifeMark interest		30,000,000	-
Net cash used in investing activities		$(143,297,938)	$(91,151,420)
Cash flows from financing activities			
New share capital, net of share issue costs	8	155,685,585	46,286,377
Proceeds from exercise of options	8	2,332,603	607,500
Repayment of debt	9	(168,000,000)	(49,000,000)
Proceeds from debt	9	162,500,000	92,500,000
Promissory notes issued	5	(11,665,000)	(1,250,000)
Dividends paid	8	(35,648,317)	(24,464,678)
Payments in lieu of dividends on RSUs		(292,790)	(241,738)
Net cash used in financing activities		$104,912,081	$64,437,461
Net increase/(decrease) in cash and cash equivalents		5,360,087	(250,210)
Cash and cash equivalents, Beginning of year		3,638,255	3,888,465
Cash and cash equivalents, End of year		$8,998,342	$3,638,255

1. **Reporting entity:**

Alaris Royalty Corporation is a company domiciled in Calgary, Alberta, Canada. The consolidated financial statements of the Company as at and for the year ended December 31, 2013 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, Alaris USA Inc. ("Alaris USA"), 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, Alaris Cooperatief U.A ("Alaris Cooperatief").

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 7, 2014.

(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. Alaris USA uses the United States dollar, while Alaris Cooperatief uses the Canadian dollar as the functional currencies.

(d) Use of estimates and judgments

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

Key judgments

A key judgment relates to the consideration of control, joint control and significant influence. The Corporation has agreements with various partners and these agreements include not only clauses as to distributions but also various protective rights. The Corporation has assessed these rights under IFRS 10 and 11 and determined that consolidation is not required.

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. Subsequent to December 31, 2013, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009 (the "Reassessment"). Pursuant to the Reassessment, the deduction of approximately $10 million of non-capital losses by the Corporation was denied, resulting in reassessed taxes and interest of approximately $3.6 million. The Corporation has received legal advice that it should be entitled to deduct the non-capital losses and as such, the Corporation remains of the opinion that its July 14, 2009 tax return was filed correctly and will withstand such Reassessment. The Corporation intends to vigorously defend its tax filing position. In order to do that, the Corporation is required to pay 50% of the reassessed amount as a deposit to the Canada Revenue Agency. It is possible that the Corporation may be reassessed with respect to the deduction of its non-capital losses in respect of its tax filings subsequent to July 14, 2009, on the same basis.

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 other 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, which are considered to be protective rights) 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, Agility and Sequel, the Corporation's three foreign investments. The Corporation matched 100% of the 2014 scheduled distributions to the Canadian parent and 75% of the expected 2015 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 and credit facility renewal fees. 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, 2014, 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, with an effective date yet to be determined 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.

Effective January 1, 2013, the Corporation adopted IFRS 10, 11, 12 and 13. These new standards do not affect the recognition or measurement of any items in the Corporation’s Financial Statements. Disclosure requirements under IFRS 13 have been provided in Note 4. There have been no other changes to the Corporation's accounting policies from those disclosed in the consolidated Financial Statements of the Corporation for the years ended December 31, 2012 and 2011.

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. The Board 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. No single partner accounted for more than 20% of the Corporation's revenue in the year ended December 31, 2013.

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 $8,998,342 at December 31, 2013 (December 31, 2012 - $3,638,255), 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, 2013. The Corporation wrote off $575,000 in receivables relating to SHS as the first year's distributions were weighted toward the end of the first year. The Corporation does not expect to collect a material amount of those receivables. The items remaining in accounts receivable were current at December 31, 2013.

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 $75.1 million, 364 day revolving credit facility, and has $44.5 million balance drawn at December 31, 2013 ($50.0 million at December 31, 2012). 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	$ 1,361,588	$ 1,361,588	$ -	$ -	$ -
Dividends payable	3,443,243	3,443,243	-	-	-
Income taxes payable	1,031,701	1,031,701	-	-	-
Foreign exchange contracts	633,801	633,801	-	-	-
Bank indebtedness	44,500,000	-	-	29,666,667	14,833,333
Total	$ 50,970,333	$ 6,470,333	$ -	$ 29,666,667	$ 14,833,333

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, Agility and Sequel 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 2014 and also for 75% of the expected distributions in 2015. 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, 2013.

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, 2013, if interest rates had been 1% lower with all other variables held constant, net income for the year would have been approximately $190,000 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, 2013.

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 (0.8:1 at December 31, 2013). EBITDA is defined as net income before interest expense, income taxes, depreciation and amortization and non-cash stock-based compensation expenses. The Corporation has a fixed charge coverage ratio covenant of 1:1 (1.10:1 at December 31, 2013). Additionally, a minimum tangible net worth requirement of $401.7 million is in place (Actual: $429.8 million at December 31, 2013). Tangible net worth is defined as subordinated debt plus shareholders equity. The Corporation was in compliance with all debt covenants at December 31, 2013. 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, 2013.

Fair Value of Financial Instruments

The Corporation's financial instruments as at December 31, 2013 and December 31, 2012 include cash and cash equivalents, trade and other receivables, promissory note receivable, Preferred LP and LLC units, foreign exchange forward contracts, 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 bear 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, 2013 and 2012, 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, 2013 and 2012, there were no transfers between level 1 or level 2 classified assets and liabilities.

December 31, 2013	Level 1	Level 2	Total
Foreign exchange contracts	-	(663,801)	(663,801)
Preferred LP and LLC units	-	433,988,295	433,988,295
	$ -	$ 433,325,124	$ 433,325,124
December 31, 2012	**Level 1**	**Level 2**	**Total**
Foreign exchange contracts	-	18,113	18,113
Preferred LP and LLC units	-	298,226,402	298,226,402
	$ -	$ 298,244,515	$ 298,244,515

5. Investments

Preferred LP Units:

December 31, 2013	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LifeMark Health	$ 19,502,159	$ 499,894	$ 20,002,053	$ 35,500,000
LMS	54,228,822	333,280	54,562,102	32,528,822
Solowave	32,500,000	511,253	33,011,253	32,600,000
KMH	54,800,000	559,192	55,359,192	55,431,198
Killick	41,250,000	257,544	41,507,544	44,800,000
Quetico	28,575,870	860,337	29,436,207	29,436,207
Labstat	41,200,000	518,944	41,718,944	39,718,944
Agility Health	21,352,230	712,284	22,064,514	22,064,514
SHS	15,000,000	512,014	15,512,014	-
SCR	40,000,000	486,389	40,486,389	40,486,389
Sequel	70,111,800	593,111	70,704,911	70,704,911
SMi	30,000,000	717,310	30,717,310	30,717,310
	$ 448,520,881	$ 6,561,552	$ 455,082,433	$ 433,988,295
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

The difference in the acquisition cost of Quetico and Agility at December 31, 2012 and December 31, 2013 is due to foreign currency translation.

Assumptions used in fair value calculations:

The Corporation estimated the fair value of the available for sale financial assets (Preferred LP and LLC 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 2013 and 2012.

	Opening Fair Value	Additions	Disposals	Foreign Exchange Adjustment	Fair Value Adjustment	Closing Fair Value
2013						
LifeMark Health	$ 65,500,000	$ -	$30,000,000	$-	$ -	$ 35,500,000
LMS	25,800,000	3,228,822	-	-	3,500,000	32,528,822
Solowave	31,500,000	-	-	-	1,100,000	32,600,000
KMH	55,376,519	54,649	-	-	-	55,431,198
Killick	37,600,000	5,000,000	-	-	2,200,000	44,800,000
Quetico	27,668,877	-	-	1,767,330	-	29,436,207
Labstat	41,718,944	-	-	-	(2,000,000)	39,718,944
Agility Health	13,062,062	8,181,202	-	821,250	-	22,064,514
SHS	-	15,512,014	15,512,014	-	-	-
SCR	-	40,486,389	-	-	-	40,486,389
Sequel	-	70,018,611	-	686,300	-	70,704,911
SMi	-	30,717,310	-	-	-	30,717,310
	$298,226,402	$173,198,997	$45,512,014	$3,274,880	$4,800,000	$433,988,295
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

The Corporation holds intangible assets as follows:

Intangible Assets:

	Acquisition Cost	Capitalized Cost	Accumulated Amortization	Net Cost
December 31, 2013				
End of the Roll	$ 7,200,000	74,920	$ (795,656)	$ 6,479,264
December 31, 2012				
End of the Roll	$ 7,200,000	74,920	$ (704,719)	$ 6,570,201

The Corporation recorded royalty and distribution revenue as follows:

Royalties and distributions:

	2013	2012
KMH	$ 8,269,212	$ 4,755,954
Labstat	6,180,000	3,609,878
Killick	5,872,705	4,389,015
Sequel	5,099,490	-
LifeMark Health	4,969,972	6,885,000
Quetico	4,816,185	4,248,300
Solowave	4,662,400	4,960,000
SCR	3,873,695	-
LMS	2,456,724	2,003,046
Agility Health	2,274,652	68,660
SHS	1,242,741	-
End of the Roll	1,148,364	1,169,552
SMi	710,137	-
	$ 51,576,277	$ 32,089,405

As part of being a long-term partner with the companies the Corporation holds preferred interests in, from time to time the Corporation has offered short-term financing solutions to assist with short-term needs of the individual businesses. At December 31, 2013, the following is a summary of the outstanding promissory notes:

Partner	2013	2012
Current		
LMS	$ 3,000,000	-
KMH	3,500,000	2,500,000
SHS	2,000,000	-
Total Current	$ 8,500,000	$ 2,500,000
Non-Current		
Labstat	6,915,000	1,250,000
Total	15,415,000	3,750,000

The terms of the various notes differ: $3 million in notes to LMS were converted to additional preferred units at the Corporation's option on December 31, 2013 leaving $3 million at December 31, 2013 that is expected to be repaid before June 30, 2014; the KMH notes are expected to be repaid or converted to additional units at the Corporation's option prior to June 30, 2014; a portion of the Labstat notes can be converted to preferred units as well, but not until 2015; and the SHS note is secured against certain assets of the SHS business and the Corporation expects to be repaid as a secured creditor out of the current receivership process.

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. During the year ended December 31, 2013, the Corporation received $30 million of proceeds from LifeMark Health for the redemption of a portion of the preferred units in LifeMark. Alaris currently holds 6,750,000 preferred units which entitle the Corporation to the contractual right to receive an annual preferred distribution, in priority to distributions on LifeMark Health's other partnership units. The 2013 redemptions resulted in a decrease to the annual distributions from LifeMark from $7,020,000 to $3,956,880. The post-transaction annual distribution has a guaranteed increase of 4% per year thereafter and distributions are receivable monthly.

LifeMark Health became a subsidiary of Centric Health Corporation ("Centric") in 2011, who acquired all of the issued and outstanding residual units of LifeMark Health and all of the intellectual property of LifeMark Health, 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.

The remainder of the units ($35.5 million) can be repurchased anytime with 30-days notice. Starting on June 9, 2014 the repurchase price will increase 4% per year.

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

The Corporation holds 542,288 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. On December 31, 2013, Alaris converted a $3 million promissory note plus accrued interest of $0.228 million to another 32,288 LMS Units.

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 the contractual right 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.

During the past twelve months, the Corporation provided $3.5 million in demand notes (interest at 8.5% per annum) to temporarily bridge financing on two of the acquisitions. These notes are expected to be repaid or converted to additional preferred units at the Corporation’s option prior to June 30, 2014.

Pursuant to the KMH partnership agreement (the "KMH Partnership Agreement") dated April 27, 2010, the KMH Units entitle the Corporation to the contractual right 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 the contractual right 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 4,125,000 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, 900,000 Killick Units were acquired on December 24, 2012 for an aggregate acquisition cost of $9 million and 500,000 Killick Units were acquired on December 24, 2013 for an aggregate acquisition cost of $5 million.

Pursuant to the Killick partnership agreement (the "Killick Partnership Agreement") dated July 6, 2011, the Killick Units entitle the Corporation to the contractual right 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 the contractual right 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.

Pursuant to the Labstat partnership agreement (the "Labstat Partnership Agreement") dated June 9, 2012, the Labstat Units entitle the Corporation to the contractual right 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.

In 2013, the Corporation agreed to restructure the form of its distributions for a two year period. Under the Labstat Partnership Agreement, the Corporation would have been entitled to $5.81 million in distributions in 2014. The Corporation agreed to a reduced fixed portion of the distribution of $2.99 million (7.25% of the original acquisition cost) with a variable portion in the form of a sweep of 75% of the excess cash flow of the business as long as certain senior lender covenants are met up to a maximum of $5.81 million.

In June 2012, the Corporation provided a $1.25 million demand note (interest at 15.3% per annum) to temporarily bridge financing of the acquisition of the previous owners interest. During 2013, the Corporation provided $5.665 million in demand notes (interest at 7.0% per annum) to provide additional working capital. Neither of these notes are expected to be repaid in 2014.

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 1,810 Class B units and 200 Class C units ("Agility Units") in Agility Health, LLC, an American corporation. 1,250 Class B units were acquired on December 12, 2012 for a cost of $12.5 million (Canadian funds), 560 Class B units were acquired on October 24, 2013 for a cost of $5.8 million (Canadian funds) and 200 Class C units were acquired on November 13, 2013 for a cost of $2.1 million (Canadian funds) for an aggregate acquisition cost of $20.4 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 the contractual right 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.

(i) Investment in SHS Services Management, LP ("SHS"):

The Corporation holds 1,500,000 preferred partnership units in SHS acquired on March 6, 2013 for $15 million. Due to significant costs and challenges in transitioning the business from Sears Canada Inc. to SHS, SHS entered a receivership process in December 2013. The Corporation does not expect to recover a material amount out of the receivership process and as a result has reduced the fair value of its preferred units in SHS to nil at December 31, 2013.

(j) Investment SCR Mining and Tunneling, LP ("SCR"):

The Corporation holds 4,000,001 preferred partnership units ("SCR Units") in SCR acquired on May 23, 2013 for $40 million.

Pursuant to the partnership agreement dated May 23, 2013, the SCR Units entitle the Corporation to the contractual right to receive an annual preferred distribution in priority to distributions on SCR'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 SCR's gross revenues for the previous fiscal year. Distributions on the SCR units are receivable monthly.

SCR has the option at any time after May 23, 2016 to repurchase the units at a pre-negotiated premium to the original purchase price.

(k) Investment in Sequel Youth and Family Services, LLC ("Sequel"):

On July 1, 2013, the Corporation acquired 810,000 Class C limited liability company units ("Sequel Units") in Sequel Youth Family Services for $66 million US.

Pursuant to the operating agreement dated July 1, 2013, the Sequel Units entitle the Corporation to the contractual right to receive an annual preferred distribution in priority to distributions on Sequel's common units in an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in Sequel's same program revenues for the previous fiscal year. Distributions on the Sequel units are receivable monthly and are scheduled to be $9.9 million in USD for the first twelve months.

Sequel has the option at any time after July 1, 2016 to repurchase the units at a pre-negotiated premium to the original purchase price.

(l) Investment SM Group International, LP ("SMi"):

The Corporation holds 3,000,001 preferred partnership units ("SMi Units") in SMi acquired on November 8, 2013 for $30 million.

Pursuant to the partnership agreement dated November 8, 2013, the SMi Units entitle the Corporation to the contractual right to receive an annual preferred distribution in priority to distributions on SMi'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 SMi's gross revenues for the previous fiscal year. Distributions on the SMi units are receivable monthly.

SMi has the option at any time after November 8, 2016 to repurchase the units at a pre-negotiated premium to the original purchase price

II – Intangible Assets

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 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.

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 period. The Corporation's consolidated effective tax rate for the year ended December 31, 2013 was 25% (year ended December 31, 2012 – 25%).

Income tax expense is calculated by using the combined federal and provincial statutory income tax rates. A reconciliation of the difference is as follows:

		2013		2012
Earnings before income taxes	$	40,367,314	$	24,723,477
Combined federal and provincial statutory income tax rate		25%		25%
Expected income tax provision	$	10,091,829	$	6,180,869
Non-deductible expense		1,049,000		521,252
LP asset – fair value		-		-
Intangibles		-		-
Rate changes and other		(597,012)		(14,247)
	$	10,543,817	$	6,687,874

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

		2013		2012
Deferred income tax assets (liabilities):				
Non-capital losses and unclaimed scientific research and development expenses ("SRED") net of partnership deferral	$	1,780,681	$	9,862,623
Equipment		33,636		53,829
Share issue costs		2,728,464		1,423,652
Intangible assets		(1,642,550)		(1,653,917)
Investment tax credits		(2,730,598)		(2,730,598)
Preferred partnership units		3,734,502		1,686,374
Short term investments		(28,133)		-
Derivatives		(90,987)		31,162
	$	3,785,015	$	8,673,125

As at December 31, 2013, 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 $3,692,188.

Movement in deferred tax balances during the year	Deferred Income Taxes
Balance at January 1, 2012	$ 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
Recognized in profit and loss	(8,257,300)
Recognized directly in equity	2,337,670
Recognized in other comprehensive income	1,031,520
Balance at December 31, 2013	$ 3,785,015

Cash taxes paid in the year total $1,344,166 (2012 - $709,173).

7. Equipment:

Equipment consists of leasehold improvements, furniture and fixtures, and computer equipment. The amounts are net of accumulated depreciation of $169,278 (December 31, 2012 - $153,931). During the year ended December 31, 2013, the Corporation acquired assets with a cost of $15,290 (2012 - $9,835).

8. Share capital:

Issued Common Shares	Number of Shares	Amount
Balance at January 1, 2012	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	22,336,642	$ 252,016,172
Issued by short form prospectus 2013	5,888,000	160,036,300
Short form prospectus costs 2013	-	(9,350,714)
Income tax benefit of share issue costs	-	2,337,670
Issued by private placement	181,821	5,000,000
Issued after director RSU vesting	46,250	486,672
Options exercised in the period	241,021	2,332,603
Fair value of options exercised in the period	-	378,873
Canceled under plan of arrangement	(40)	-
Balance at December 31, 2013	28,693,694	$ 413,237,576

The Corporation has authorized, issued and outstanding, 28,693,694 voting common shares as at December 31, 2013.

	2013	2012
Weighted average shares outstanding, basic	26,695,896	20,934,869
Effect of outstanding options	478,968	335,943
Effect of outstanding RSUs	233,207	205,181
Weighted average shares outstanding, fully diluted	27,408,071	21,475,993

605,387 options were excluded from the calculation as they were anti-dilutive at December 31, 2013.

Dividends

The following dividends were declared and paid by the Corporation:

In the first five months of 2013, the Corporation declared a dividend of $0.105 per common share. In June the Corporation declared a dividend of $0.115 per common share and in July through December the Corporation declared a dividend of $0.12 per common share ($36,746,211 in aggregate). For the year ended December 31, 2012, dividends of $24,959,880 were declared.

9. Debt:

The Corporation has a $75,100,000 secured revolving credit facility with a syndicate of Canadian chartered banks. On December 31, 2013, the facility was extended from $50.1 million to $75.1 million. At December 31, 2013, the Corporation has $44.5 million in senior debt outstanding. Interest is payable at the lenders' prime rate plus 3.0% (6.0% at December 31, 2013). The term out date under the credit facility is December 31, 2014. If monies are drawn, and if an extension is not received by December 31, 2014, the facility will be repaid in thirty-six equal monthly installments commencing January 31, 2015. There are financial covenants under this facility and at December 31, 2013, 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, 2013	$ 50,000,000
Senior debt repayment, January 2013	$ (44,000,000)
Senior debt repayment, February 2013	(2,000,000)
Senior debt advance, March 2013	15,000,000
Senior debt repayment, March 2013	(5,000,000)
Senior debt repayment, April 2013	(4,000,000)
Senior debt repayment, May 2013	(10,000,000)
Senior debt advance, May 2013	31,000,000
Senior debt repayment, June 2013	(7,000,000)
Senior debt advance, June 2013	72,000,000
Senior debt repayment, July 2013	(96,000,000)
Senior debt advance, October 2013	6,000,000
Senior debt advance, November 2013	33,500,000
Senior debt advance, December 2013	5,000,000
Balance at December 31, 2013	$ 44,500,000

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 674,636 and issued 233,207 RSUs to management and Directors as of December 31, 2013. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (154,457) do not vest until the end of the three-year period (111,431 in September 2015 and 43,026 in July 2016) 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, 2013, the Corporation incurred stock-based compensation expenses of $3,808,518 (2012 - $1,901,683) which includes: $1,717,600 (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2012 - $663,185); $nil (non-cash expense) for shares issued in the year in lieu of dividends under the RSU Plan (2012 - $84,250); and $2,090,918 (non-cash expense) for the amortization of the fair value of outstanding stock options (2012 - $1,154,248). The Corporation has reserved 2,197,733 and issued 1,748,998 options that vest over a four-year period and expire in five years.

The options outstanding at December 31, 2013, have an exercise price in the range of $7.27 to $33.87 and a weighted average contractual life of 3.5 years (2012 – 3.5 years).

	Weighted Avg Exercise Price 2013	Number of Options 2013	Weighted Avg Exercise Price 2012	Number of Options 2012
Outstanding at January 1	$16.92	1,406,161	$12.96	929,775
Exercised during the year	10.96	(262,550)	12.00	(50,625)
Granted during the year	33.87	605,387	23.53	527,011
Outstanding at December 31	23.67	1,748,998	16.92	1,406,161
Exercisable at December 31	$15.75	523,303	$11.88	461,775

The following table summarizes the options outstanding and exercisable as at December 31, 2013:

Exercise price	Number outstanding	Weighted average remaining life (years)	Number exercisable
$7.27	34,000	0.93	34,000
$11.56	265,000	1.98	198,750
$15.48	120,500	2.59	60,250
$16.87	197,100	2.95	98,550
$23.53	527,011	3.68	131,753
$33.87	605,387	4.57	-
	1,748,998	3.52	523,303

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	July 2013
Dividend yield	12.00%	10.50%	8.72%	6.68%	6.79%	5.12%	4.25%
Expected volatility	38.00%	56.00%	51.79%	46.49%	45.08%	37.73%	31.68%
Risk free rate of return	2.66%	2.21%	2.23%	1.61%	1.16%	1.27 %	1.58%
Expected life	4.325	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	$6.1073

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:

	2013	2012
Base salaries and benefits	$717,750	$678,414
Bonus	1,140,000	660,000
Non cash stock-based compensation	2,515,630	1,112,955
	$4,373,380	$2,451,369

12. Commitments and contingencies:

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:

2014	$	175,896
2015		175,896
2016		161,238
	$	513,030

In early January 2014, the Corporation received a proposal letter (the "Proposal Letter") wherein the Canada Revenue Agency (the "CRA") states that it intends to reassess Alaris and deny the deduction of certain non-capital losses claimed by Alaris for the taxation year ended July 14, 2009. The Corporation then received a notice of reassessment (the "Notice of Reassessment") from the CRA in February 2014.

Alaris anticipates that legal proceedings through the CRA and tax courts would take considerable time to resolve. The Corporation firmly believes it will be successful in defending its position and therefore, any deposits paid to the CRA would be refunded, plus interest. No provisions have been made for these amounts.

13. Subsequent events:

Subsequent to December 31, 2013, the Corporation contributed $6 million to Labstat for 600,000 additional Labstat Units. Distributions on those units will be on similar terms as those set out in note 5 with a fixed distribution of $435,000 (7.25%) in the first twelve months along with a variable portion that will depend on the performance of the business up to a maximum of $857,143.