Consolidated Financial Statements of

ALARIS ROYALTY CORP.

Audited financial statements for the years ended

December 31, 2018 and 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alaris Royalty Corp.

Opinion

We have audited the consolidated financial statements of Alaris Royalty Corp. (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

Hereinafter referred to as the "financial statements".

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- and the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled the "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled the "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Ernest Trevor Hammond.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

March 5, 2019

Alaris Royalty Corp.

Consolidated statements of financial position

$ thousands	Note	31-Dec 2018	31-Dec 2017
Assets			
Cash and cash equivalents		$ 22,774	$ 35,475
Prepayments		2,181	2,407
Foreign exchange contracts		-	1,430
Trade and other receivables	5	923	8,642
Income taxes receivable	9	1,484	-
Investment tax credit receivable	9	2,798	2,957
Promissory notes receivable	5	23,252	15,403
Current Assets		$ 53,413	$ 66,314
Promissory notes and other receivables	5	26,959	32,017
Deposits	9	20,206	19,252
Equipment		344	503
Intangible assets		-	6,116
Investments	5	790,175	669,216
Deferred income taxes	9	281	5,449
Non-current assets		$ 837,966	$ 732,552
Total Assets		**$ 891,378**	**$ 798,867**
Liabilities			
Accounts payable and accrued liabilities		$ 3,670	$ 1,707
Dividends payable		5,013	4,921
Foreign exchange contracts	4	1,333	-
Income tax payable	9	1,257	588
Current Liabilities		$ 11,273	$ 7,217
Deferred income taxes	9	16,137	13,641
Loans and borrowings	7	228,103	173,464
Non-current liabilities		$ 244,240	$ 187,105
Total Liabilities		**$ 255,513**	**$ 194,322**
Equity			
Share capital	6	$ 621,082	$ 620,842
Equity reserve	8	14,679	12,058
Fair value reserve	3	-	(17,036)
Translation reserve		32,725	5,767
Retained earnings / (deficit)		(32,621)	(17,087)
Total Equity		**$ 635,865**	**$ 604,545**
Total Liabilities and Equity		**$ 891,378**	**$ 798,867**

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On behalf of the Board:

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

Alaris Royalty Corp.

Consolidated statements of comprehensive income

$ thousands except per share amounts	Note	Year ended December 31 2018	2017
Revenues			
Royalties and distributions	5	$ 97,970	$ 86,684
Interest and other	5	2,109	2,389
Total Revenue		**$ 100,079**	**$ 89,073**
Other income			
Gain on partner redemptions	5	$ 8,144	$ 26,575
Increase in investments at fair value	5	11,537	-
Realized gain / (loss) on foreign exchange contracts		(73)	1,370
Total other income		19,608	27,945
Salaries and benefits		$ 5,383	$ 3,371
Corporate and office		3,411	2,597
Legal and accounting fees		3,333	2,096
Transaction diligence costs	5	3,957	-
Non-cash stock-based compensation	8	2,860	3,379
Bad debt expense & reserve	5	25,974	23,430
Impairment and other charges		-	42,491
Depreciation and amortization		214	268
Total Operating Expenses		45,132	77,632
Earnings before the undernoted		**$ 74,555**	**$ 39,387**
Finance costs	7	8,858	6,582
Unrealized (gain) / loss on foreign exchange contracts		2,792	(2,144)
Unrealized foreign exchange (gain) / loss		(13,327)	12,793
Earnings before taxes		**$ 76,232**	**$ 22,156**
Current income tax expense	9	8,723	22,089
Deferred income tax expense / (recovery)	9	6,713	(11,815)
Total income tax expense		15,436	10,274
Earnings		**$ 60,796**	**$ 11,882**
Other comprehensive income			
Transfer on redemption of investments at fair value		$ -	$ (9,062)
Transfer from fair value reserve to impairment and other charges		-	4,250
Net change in investments at fair value	5	-	16,692
Tax effect of items in other comprehensive income		-	(984)
Foreign currency translation differences		26,958	(17,262)
Total comprehensive income		**$ 87,754**	**$ 5,516**
Earnings per share			
Basic	6	$ 1.67	$ 0.33
Fully diluted	6	$ 1.65	$ 0.32

Alaris Royalty Corp.
Consolidated statement of changes in equity
For the year ended December 31, 2017

$ thousands	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings / (Deficit)	Total Equity
Balance at January 1, 2017		$ 617,893	$ 11,628	$ (27,931)	$ 23,029	$ 30,079	$ 654,698
Earnings for the year		$ -	$ -	$ -	$ -	$ 11,882	$ 11,882
Other comprehensive income / (loss)							
Transfer on redemption of investments at fair value		-	-	(9,062)	-	-	(9,062)
Transfer from fair value reserve to impairment and other charges		-	-	4,250	-	-	4,250
Net change in investments at fair value		-	-	16,692	-	-	16,692
Tax effect on items in other comprehensive income		-	-	(984)	-	-	(984)
Foreign currency translation differences		-	-	-	(17,262)	-	(17,262)
Total other comprehensive income / (loss)		-	-	10,895	(17,262)	-	(6,367)
Total comprehensive income / (loss) for the year		$ -	$ -	$ 10,895	$ (17,262)	$ 11,882	$ 5,515
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	8	$ -	$ 3,379	$ -	$ -	$ -	$ 3,379
Dividends to shareholders	6	-	-	-	-	(59,048)	(59,048)
Options exercised in the period		2,950	(2,950)	-	-	-	-
Total transactions with Shareholders of the Company		2,950	430	-	-	(59,048)	(55,669)
Balance at December 31, 2017		**$ 620,842**	**$ 12,058**	**$ (17,036)**	**$ 5,767**	**$ (17,087)**	**$ 604,545**

Alaris Royalty Corp.

Consolidated statement of changes in equity

For the year ended December 31, 2018

$ thousands	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings / (Deficit)	Total Equity
Balance at January 1, 2018		$ 620,842	$ 12,058	$ (17,036)	$ 5,767	$ (17,087)	$ 604,545
Earnings for the year		$ -	$ -	$ -	$ -	$ 60,796	$ 60,796
Other comprehensive loss							
Foreign currency translation differences		-	-	-	26,958	-	26,958
Total other comprehensive income / (loss)		-	-	-	26,958	-	26,958
Total comprehensive income / (loss) for the year		$ -	$ -	$ -	$ 26,958	$ 60,796	$ 87,754
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	8	$ -	$ 2,860	$ -	$ -	$ -	$ 2,860
Dividends to shareholders	6	-	-	-	-	(59,294)	(59,294)
Fair value reserve transferred to opening retained earnings	3	-	-	17,036	-	(17,036)	-
Shares issued pursuant to RSU vesting in the year		240	(240)	-	-	-	-
Total transactions with Shareholders of the Company		240	2,621	17,036	-	(76,330)	$ (56,433)
Balance at December 31, 2018		**$ 621,082**	**$ 14,679**	**$ -**	**$ 32,725**	**$ (32,621)**	**$ 635,865**

Alaris Royalty Corp.
Consolidated statements of cash flows

$ thousands	Notes	Year ended December 31 2018	2017
Cash flows from operating activities			
Earnings from the year		$ 60,796	$ 11,882
Adjustments for:			
Finance costs	7	8,858	6,582
Deferred income tax expense / (recovery)		6,713	(11,815)
Depreciation and amortization		214	268
Bad debt expense & reserve	5	25,974	23,430
Impairment and other charges	5	-	42,491
Gain on partner redemptions	5	(8,144)	(10,535)
Increase in investments at fair value	5	(11,537)	-
Unrealized (gain) / loss on foreign exchange contracts		2,792	(2,144)
Unrealized foreign exchange (gain) / loss		(13,327)	12,793
Transaction diligence costs	5	3,957	-
Non-cash stock-based compensation	8	2,860	3,379
		$ 79,156	$ 76,331
Change in:			
- trade and other receivables	5	7,176	(1,693)
- income tax receivable / payable		(815)	319
- prepayments		(313)	227
- accounts payable and accrued liabilities		1,962	(1,350)
Cash generated from operating activities		87,167	73,834
Finance costs		(8,858)	(6,582)
Net cash from operating activities		$ 78,309	$ 67,252
Cash flows from investing activities			
Acquisition of investments	5	$ (184,878)	$ (175,293)
Transaction diligence costs	5	(3,957)	-
Proceeds from partner redemptions	5	141,806	116,277
Promissory notes issued	5	(36,154)	(16,467)
Promissory notes repaid	5	11,923	617
Acquisition of equipment		-	(32)
Net cash used in investing activities		$ (71,259)	(74,898)
Cash flows from financing activities			
Repayment of debt	7	$ (161,486)	$ (116,277)
Proceeds from debt	7	201,721	196,528
Dividends paid	6	(59,203)	(59,032)
Deposits with CRA	9	(11)	(2,422)
Net cash from / (used in) financing activities		$ (18,979)	$ 18,797
Net increase / (decrease) in cash and cash equivalents		$ (11,929)	$ 11,151
Impact of foreign exchange on cash balances		(772)	(5,166)
Cash and cash equivalents, Beginning of year		35,475	29,491
Cash and cash equivalents, End of year		$ 22,774	$ 35,475
Cash taxes paid		$ 10,494	$ 26,712

1. Reporting entity:

Alaris Royalty Corp. is a company domiciled in Calgary, Alberta, Canada. The consolidated financial statements as at and for the year ended December 31, 2018 comprise Alaris Royalty Corp. and its subsidiaries (together referred to as the "Corporation"). The Corporation's American investments are made through two Delaware Corporations, Alaris USA Inc. ("Alaris USA") and Salaris USA Royalty Inc. ("Salaris USA"). 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, loans receivable, 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 5, 2019.

(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:

- Investments at fair value are measured at fair value with changes in fair value recorded in earnings (see note 3).
- 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 Inc. and Salaris USA have the United States dollar, while Alaris Cooperatief has 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 in each of our investments. 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 appropriate. In a number of our investments we have protective rights, which provides the Corporation the right to demand repayment of our investment if it is in default of the terms of our operating agreement. Failure to satisfy the demand for repayment can lead to the Corporation's rights to allow it to control the investment.

Key estimates used in discounted cash flow projections

Key assumptions used in the calculation of the fair value of investments at fair value are discount rates, terminal value growth rates and annual performance metric growth rates. Where partners are in default, other valuation methods may be used.

Collectability of amounts receivable

Management makes estimates on the timing and availability of cash flows from its partners to pay for amounts that are past due. These estimates are generally based on a combination of the relevant partners' most recently available financial information and past performance. Refer to note 5 for details on the Corporation's assessment of collectability of amounts receivable that are past due.

Income taxes

Provisions for income 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.

In 2017, the President of the United States signed H.R.1, the Tax Cuts and Jobs Act (U.S. Tax Reform or the Act) into law. As a result, among other things, effective January 1, 2018, the enacted U.S. federal corporate income tax rate was reduced from 35 per cent to 21 per cent and interest deductibility was restricted. Existing deferred income tax assets and deferred income tax liabilities related to the Corporation's U.S. businesses were adjusted to reflect the new lower income tax rate as at December 31, 2017.

In 2018, the U.S. Treasury and the Internal Revenue Service issued proposed regulations relating to the 2017 U.S. Tax Reform which provided administrative guidance and clarified certain aspects of the new laws. The proposed regulations are complex and comprehensive, and considerable uncertainty continues to exist until the final regulations are released, which is expected to occur in 2019. The Corporation continues to review, analyze and assess the impact these new proposed regulations could have on the Company as the impact could be material.

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 on its financial instruments in accordance with IFRS 9. Revenue is recognized when and only when, the Corporation becomes party to the monthly distributions related to the instruments and collection is reasonably assured.

(c) Financial instruments

Recognition and Initial Measurement

Financial instruments are recognized when the Corporation becomes party to the contractual provisions of the instrument. Financial assets and liabilities are not offset unless the Corporation has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Corporation has transferred substantially all the risks and rewards of ownership. A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are modified, but the changes to the terms are considered non-substantial, the modification is accounted for as a modification to the existing financial liability. The difference in the carrying amounts of liabilities as a result of both substantial and non-substantial modifications is recognized in profit and loss.

A financial asset or financial liability is initially measured at fair value, plus, for an item not at Fair Value through Profit or loss ("FVTPL"), transaction diligence costs that are directly attributable to its acquisition or issue. Transaction diligence costs directly attributable to financial assets or liabilities measured at FVTPL are expensed as incurred. Transaction diligence costs are directly related to the Corporation's investing activity and therefore presented as cash flow from investing in the consolidated cash flow statement

Classification and Subsequent Measurement

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through OCI ("FVOCI") or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Corporation changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

The Corporation characterizes its fair value measurements into a three-level hierarchy depending on the degree to which the inputs are observable, as follows:

- Level 1 inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Business Model Assessment

The Corporation makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Solely Payments of Principal and Interest Assessment

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Corporation considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Financial Liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

Derivatives

Derivative financial instruments are classified as FVTPL unless designated for hedge accounting. Derivative instruments that do not qualify as hedges, or are not designated as hedges, are recorded using mark-to-market accounting whereby instruments are recorded as either an asset or liability with changes in fair value recognized in profit and loss.

(d) Share capital

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) Intangible assets

Intangible assets were comprised solely of the Corporation's investment in certain intellectual property of End of the Roll, which had a finite useful life and was measured at cost less accumulated amortization and accumulated impairment losses. The intangible assets were sold during the year ended December 31, 2018.

(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. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(g) Impairment

The Corporation recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument whereas 12 month ECLs are the ECLs that result from possible default over the next 12 months. The maximum period considered when estimating ECLs is the maximum contractual period over which the Corporation is exposed to credit risk. ECLs are a probability-weighted estimate of credit losses, twelve month ECLs are recorded on origination and changed to lifetime ECLs should a significant deterioration in credit risk arise. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Corporation expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

(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

The Corporation has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from January 1, 2018. The Corporation has adopted the standards retrospectively, and as permitted any transition adjustments are recorded in opening retained earnings under IFRS 9 the transition adjustment recorded in opening retained earnings. Comparative periods have not been restated.

IFRS 9: Financial Instruments

IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The IAS 39 measurement categories for financial assets will be replaced by FVTPL, fair value through other comprehensive income and amortized cost.

IFRS 9 retains most of the IAS 39 requirements for financial liabilities and the Corporation did not require any changes in classification or measurement of financial liabilities on transition to IFRS 9.

A new expected credit loss model for calculating impairment on financial assets classified at amortized cost replaces the incurred loss impairment model used in IAS 39. The new model results in more timely recognition of expected credit losses.

When financial assets are impaired by credit losses and the entity records the impairment in a separate account (eg an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets.

As a result of the adoption of IFRS 9, the following classification and measurement changes have been reflected:

	IAS 39		IFRS 9	
Financial Instrument	**Category**	**Measurement**	**Category**	**Measurement**
Cash and cash Equivalents	FVTPL	Fair value	Amortized cost	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Foreign exchange contracts	FVTPL	Fair value	FVTPL	FVTPL
Promissory notes receivable	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Investments	Available for sale financial assets	Fair value	FVTPL or amortized cost	FVTPL or amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	Amortized cost	Amortized cost
Loans and borrowings	Other liabilities	Amortized cost	Amortized cost	Amortized cost

The classification and measurement of investments on transition to IFRS 9 as FVTPL is due to the business model of held to collect, and contractual cash flows being other than solely payments of principal and interest. Although the investments at FVTPL ("investments at fair value") will continue to be measured at fair value, fair value gains or losses will be recorded through profit or loss as opposed to through other comprehensive income. On the date of transition no investment was classified at amortized cost. Therefore a transition adjustment of $17.0 million was made to move cumulative fair value gains or losses from the fair value reserve to retained earnings.

For those financial assets classified and measured at amortized cost, the expected credit loss model is applied to determine impairment of financial assets. This applies to trade and other receivables, as well as promissory notes receivable.

There was no material change from the Corporation's existing methodology in determining credit losses to the expected credit loss model that is applied to assets classified at amortized cost effective January 1, 2018. Therefore, there was no transition adjustment required.

Classification of legal and accounting fees directly related to transactions

In addition, IFRS 9 requires that transaction costs be expensed as incurred for financial assets measured at FVTPL. As the Corporation's investments at December 31, 2017 were recorded at fair value, there was no adjustment to opening retained earnings to reflect this change in treatment.

IFRS 15: Revenue from Contracts with Customers

Revenue from Contracts with Customers provides guidance on revenue recognition and relevant disclosures, and is effective for annual reporting periods beginning on or after January 1, 2018. Due to the fact that the majority of its revenues are generated from financial instruments and therefore not in the scope of IFRS 15, there has been no change to the Corporation's revenue recognition and no transition adjustment was required.

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 analyze 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 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 partner or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investments and amounts and promissory notes receivable. 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 counterparties, including the default risk of the industry and country in which counterparties 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, 2018 and 2017.

Other price risk is the risk that future cash flows associated with portfolio investments will fluctuate. Changes in 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 and outstanding promissory notes. 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 typically 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 $22.8 million at December 31, 2018 (December 31, 2017 - $35.5 million), which represents its maximum credit exposure on these assets. The unusually high amount of cash was in place in order to fund transactions just subsequent to December 31st in each year, US$8.0 million in January 2019 (see Note 13) and US$15.0 million in January 2018 (see Note 5).

The carrying amount of investments, trade and other receivables, promissory notes, and cash and cash equivalents represents the maximum credit exposure.

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 $300 million, four year revolving credit facility, and has $228.1 million balance drawn at December 31, 2018 ($173.5 million at December 31, 2017). The Corporation has the following financial liabilities that mature as follows:

31-Dec-18	Total	0-6 Months	6 mo – 1 yr	1 – 2 years	3 – 4 years
Accounts payable and accrued liabilities	$ (3,670)	$ (3,670)	$-	$-	$-
Dividends payable	(5,013)	(5,013)	-	-	-
Foreign exchange contracts	(1,333)	(835)	(330)	(168)	-
Loans and borrowings	(228,103)	-	-	-	(228,103)
Total	**$ (238,119)**	**$ (9,517)**	**($330)**	**($168)**	**$ (228,103)**

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 investments in the United States, the Corporation has exposure to foreign currency exchange rate risk. The Corporation purchases forward exchange rate contracts to match expected distributions in US dollars on a rolling 12 month basis and also for between 25% to 50% of the expected distributions on a rolling 12 to 24 month basis (current notional value of US$25.5 million). The Corporation intends to purchase additional contracts each quarter so that approximately two years of distributions would be hedged against movement in the US Dollar compared to the Canadian dollar. As at December 31, 2018, if the US foreign exchange rate had been $0.01 lower with all other variables held constant, net income for the year would have been approximately $0.1 million higher, due to a smaller unrealized foreign exchange loss during the period. An equal and opposite impact would have occurred to net income had foreign exchange rates been $0.01 higher.

Additionally, the Corporation has US dollar subsidiaries and loans in US dollars (external senior debt, intercompany and with Federal Resources) that are translated at each balance sheet date with an unrealized foreign exchange gain or loss recorded in earnings. As at December 31, 2018, if the US foreign exchange rate had been $0.01 lower with all other variables held constant, net income for the year would have been approximately $4.0 million lower due to lower net income from US subsidiaries, a larger unrealized loss on loans to subsidiaries and Federal Resources, partially offset by a higher unrealized gain on USD denominated external debt.

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, 2018, if interest rates had been 1% higher with all other variables held constant, net income (before tax) for the year would have been approximately $1.4 million lower, due to higher interest expense. An equal and opposite impact would have occurred to net income had interest rates been 1% lower. The Corporation had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2018.

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 four year, $300.0 million revolving credit facility, a $50.0 million accordion 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 2.5:1 which can extend to 3.0:1 for a period of 90 days. Contracted EBITDA is defined as net income before interest expense, income taxes, depreciation and amortization and non-cash stock-based compensation expenses, the Corporation can include twelve months of revenue from partners that are less than twelve months from closing and must exclude revenue from partners for the portion that was redeemed or repurchased and for distributions that have been accrued and are past due. The Corporation has a fixed charge coverage ratio covenant of 1:1. Additionally, a minimum tangible net worth requirement of $450.0 million is in place. Tangible net worth is defined as subordinated debt plus shareholders equity less intangible assets. The Corporation was in compliance with all debt covenants at December 31, 2018 (please refer to note 7 for actual ratios as of December 31, 2018). In order to acquire more distributions and royalties, the Corporation can access its credit facility for investing activity. Any funding requirements for acquisitions in excess of availability under the credit facility will require the Corporation to access public equity markets and manage the business within the bank covenants. There were no significant changes in the Corporation's approach to capital management, with the exception of an expected increase of permanent long term debt in the capital structure if it reduces the Corporation's cost of capital.

5. Investments

The following table lists the Corporation's investments at period end. For each periods presented, all of the investments are recorded at fair value with the exception of the GWM loan receivable, which is recorded at amortized cost. Investments highlighted with asterisks are denominated in US dollars and have been translated into Canadian dollars using the period end exchange rate.

31-Dec-18 *$ thousands*	**Acquisition Cost**	**Carrying Value**
Lower Mainland Steel Limited Partnership ("LMS")*	$ 60,690	$ 39,769
SCR Mining and Tunneling, LP ("SCR")	40,487	28,903
Kimco Holdings, LLC ("Kimco")*	48,016	25,965
PF Growth Partners, LLC ("Planet Fitness")*	28,913	34,064
DNT, LLC ("DNT")*	93,082	94,059
Federal Resources Supply Company ("FED")*	92,674	100,309
Sandbox Acquisitions, LLC ("Sandbox")*	48,711	53,318
Providence Industries, LLC ("Providence")*	41,459	39,007
Unify, LLC ("Unify")*	16,803	18,441
ccCommunications LLC ("ccComm")*	22,183	21,755
Accscient, LLC ("Accscient")*	41,829	42,261
Sales Benchmark Index LLC ("SBI")*	116,585	124,783
Heritage Restoration, LLC ("Heritage")*	18,511	21,556
Fleet Advantage, LLC ("Fleet")*	19,802	20,464
Body Contour Centers, LLC ("BCC")*	59,418	62,763
GWM Holdings, Inc ("GWM")*	5,975	6,139
GWM Loan Receivable at amortized cost*	55,104	56,619
Total Investments	**$ 810,242**	**$ 790,175**

31-Dec-17	**Acquisition Cost**	**Carrying Value**
Lower Mainland Steel Limited Partnership ("LMS")*	$ 60,690	$ 35,917
Labstat International, LP ("Labstat")	47,719	61,324
Agility Health, LLC ("Agility")*	26,013	26,133
SCR Mining and Tunneling, LP ("SCR")	40,487	26,203
Kimco Holdings, LLC ("Kimco")*	44,180	29,045
PF Growth Partners, LLC ("Planet Fitness")*	50,999	57,427
DNT, LLC ("DNT")*	85,883	89,933
Federal Resources Supply Company ("FED")*	35,058	40,576
Sandbox Acquisitions, LLC ("Sandbox")*	44,819	46,517
Providence Industries, LLC ("Providence")*	38,147	40,661
Unify, LLC ("Unify")*	22,993	24,499
ccCommunications LLC ("ccComm")*	8,242	7,941
Accscient, LLC ("Accscient")*	26,435	25,514
Sales Benchmark Index LLC ("SBI")*	107,271	107,158
Prospective deals	155	155
FED Loan Receivable*	50,212	50,212
Total Investments	**$ 689,304**	**$ 669,216**

Transactions closed in 2018

Q1 2018

Investment in Heritage Restoration, LLC ("Heritage")

On January 23, 2018, the Corporation entered into subscription and operating agreements with Heritage Restoration, Holdings, LLC, pursuant to which the Corporation invested US$15.0 million in exchange for preferred units in Heritage. The Corporation is entitled to an annual distribution of US$2.3 million for the first full year following the transaction, which equates to an initial yield of 15%. US$3.0 million of the Heritage units are redeemable at par at any time. The performance metric dictating the annual percentage change in the Heritage distribution is gross margin, subject to a 6% collar and will reset for the first time on January 1, 2019. The Heritage contribution was used to fund the management buyout of the existing shareholder.

Redemption of Agility Health, LLC Units ("Agility")

On February 28, 2018, the Corporation successfully redeemed all of its units in Agility as a result of the sale of Agility to a third party. Gross proceeds to Alaris from the Agility Sale consist of: (i) US$22.2 million for the preferred units Alaris held in Agility, which includes a premium of US$2.1 million over Alaris' original cost of US$20.1 million; (ii) US$2.9 million for all unpaid distributions up to February 28, 2018; and (iii) US$1.6 million for a loan outstanding, including all principal and interest accrued on such loan. US$1.5 million of the repurchase price to be paid to Alaris was placed in escrow for 18 months to satisfy indemnification obligations under the transaction. Following the escrow period any remaining escrowed funds will be paid to Alaris. The escrow period expires on August 31, 2019.

The Corporation recorded a gain on redemption of CAD$1.7 million during the year ended December 31, 2018 which represents the excess of total consideration received (US$22.2 million, US$20.7 million in cash and US$1.5 million held in escrow and recorded as long-term accounts receivable) above the carrying value of US$20.8 million converted to Canadian dollars. The cumulative fair value adjustments previously recorded through other comprehensive income were transferred to retained earnings on January 1, 2018 to reflect the changes in accounting standards (as described in note 3). As a result of the gain on redemption, the Corporation paid US$2.6 million in taxes during the year ended December 31, 2018.

Kimco Holdings, LLC Additional Contribution ("Kimco")

On March 30, 2018, the Corporation loaned US$6.0 million to Kimco to replace existing subordinated debt. The loan has a five year term and an annual yield of 12% (US$0.7 million).

On July 26, 2018, the Corporation loaned an additional US$3.8 million to Kimco to fund working capital. The Corporation is entitled to an annual yield of 8% (US$0.3 million), paid monthly. Both the subordinated debt and the loan mature on March 30, 2023.

Q2 2018

PF Growth Partners, LLC Partial Redemption ("Planet Fitness")

On May 11, 2018, the Corporation received a partial redemption of US$25.0 million from Planet Fitness in exchange for preferred units which had an associated US$3.3 million of annual distributions. The gain on the partial redemption was recorded as a fair value increase as at and for the three months ended March 31, 2018 of $3.5 million CAD. Subsequent to the transaction, the Corporation is entitled to US$3.5 million of annualized distributions on a remaining cost basis of US$20.6 million and fair value of US$23.5 million.

ccCommunications, LLC Additional Contribution ("ccComm.")

On May 31, 2018, the Corporation contributed US$10.0 million to ccComm. in exchange for annualized distributions of US$1.4 million. The proceeds were used to fund an acquisition in their related industry. The Corporation has invested a total of US$16.2 million funded over three tranches in exchange for an annualized distribution of US$2.3 million.

Fleet Advantage, LLC Initial Investment ("Fleet")

On June 15, 2018, the Corporation contributed US$15.0 million into Fleet in exchange for a first year annualized distribution of US$2.1 million. Fleet has the option to pay a portion of the Fleet distribution, subject to a maximum yield of 2% (US$0.3 million in the first year) of the total yield (14% in the initial year) in any given year as payment-in-kind ("PIK") provided that any amounts subject to the PIK must be paid in cash every three years. US$7.5 million of the Fleet units are redeemable at par at any time. The Fleet distribution will be adjusted annually (commencing January 1, 2020) based on the change in net revenues, subject to a 6% collar. The Fleet contribution was used to fund continued growth and provide partial liquidity to existing shareholders.

Labstat International, ULC Redemption ("Labstat")

On June 25, 2018, the Corporation received $61.3 million as a result of the Labstat redemption, which represents a premium of $13.6 million over Alaris' original cost of $47.7 million. The fair value of the units were previously increased to reflect the maximum repurchase price, therefore no gain was recorded at the time of disposition.

Concurrent with the redemption of the preferred units, the Corporation also received $4.3 million for previously unpaid distributions. The amounts received were recognized as revenue at the date of redemption. The Corporation had previously not assigned any value on its balance sheet to the collection of the $4.3 million of unpaid distributions because the amount and timing were dependent on the redemption of the preferred units.

As part of the redemption the Corporation received the repayment of the $3.7 million promissory note outstanding and $0.3 million of accrued interest. Prior to the redemption the Corporation also received the 2017 cash sweep of $4.2 million.

End of the Roll Redemption

On June 29, 2018, the Corporation received $12.6 million as a result of the End of the Roll repurchasing the outstanding intangible asset. The End of the Roll intangible asset had a carrying value of $6.0 million and an original cost of $7.2 million. The Corporation recognized a $6.5 million gain upon redemption.

<u>Q3 2018</u>

Accscient, LLC Additional Contributions ("Accscient")

On June 15, 2018, the Corporation contributed an additional US$3.0 million to Accscient in exchange for an additional annualized distributions of US$0.4 million.

On August 9, 2018, the Corporation contributed an additional US$7.0 million to Accscient in exchange for an additional annualized distributions of US$1.0 million. The proceeds for both contributions were used to fund acquisitions in their related industry.

Investment in Body Contour Centers, LLC ("BCC")

On September 14, 2018, the Corporation entered into subscription and operating agreements with BCC, pursuant to which the Corporation made the initial contribution of US$46.0 million in exchange for preferred units in BCC, which entitles the Corporation to an initial annual distribution of US$6.4 million. BCC has the option to pay a portion of the BCC Distribution, subject to a maximum of 2% of the aggregate contributed capital any given year as payment in kind ("PIK") provided that any amounts subject to the PIK must be paid every three years. The BCC distribution will be adjusted annually (commencing January 1, 2020) based on the change in same clinic sales, subject to a 6% collar. The BCC Contribution was used to provide partial liquidity to existing equity holders.

The Corporation has also committed as part of the operating and subscription agreements with BCC to the additional contributions consisting of US$20.0 million ("BCC Tranche 2") and US$25.0 million ("BCC Tranche 3"). The additional contributions will be funded upon BCC satisfying certain financial targets. The additional BCC contributions will carry the same terms as the original BCC contribution. Up to 25% of the BCC units are redeemable at par at any time following the earlier of the second tranche closing and three years from the original closing date, prior to such time these units are non-redeemable.

Lower Mainland Steel Limited Partnership ("LMS")

On September 20, 2018, the Corporation provided $5.0 million of short term debt to LMS in exchange for annual interest of $0.4 million. The loan is repayable in one year, with interest rate increases of an additional 2% annually automatically taking effect at the anniversary date of the contribution.

Q4 2018

Sandbox, LLC Debt Purchase ("Sandbox")

On October 29, 2018, the Corporation purchased the outstanding senior debt of Sandbox for US$12.5 million with an additional US$1.0 million added in December 2018. The outstanding debt consists of US$6.6 million of term debt and US$7.4 million of an asset backed lending ("ABL") facility. The term debt matures on March 8, 2021 and is amortizing over 5 years with annual repayments of US$1.6 million, paid monthly. The term debt and the ABL facility interest are based on a LIBOR spread, also paid monthly. The purchase of the debt provides the Corporation with all legal rights of the senior lender agreement.

Investment in GWM Holdings, Inc ("GWM")

On November 19, 2018, the Corporation contributed a total of US$46.0 million to GWM in exchange for initial distributions of US$5.6 million. The legal structure of GWM being a corporation (compared to the traditional LLC's) required the contribution to be comprised of US$41.5 million of debt and US$4.5 million of preferred equity to optimize the amount of taxes paid by our partner. Distributions received by GWM are after tax and therefore the Corporation pays less taxes then comparable transactions into a Limited Liability Corporation. The GWM distribution will be adjusted annually (commencing January 1, 2020) based on the change in revenue, subject to a 8% collar

Partial Redemption of Unify ("Unify")

On December 12, 2018, Unify returned US$6.0 million of their redeemable preferred units at par, in accordance with our operating agreement.

Transactions closed in 2017

Investment in ccCommunications LLC ("ccComm")

The Corporation contributed US$6.2 million to ccComm in 2017 in exchange for an annualized distribution of US$0.9 million. ccComm is a Sprint retailer with over 70 locations throughout the Northwest U.S. The reset metric is net revenue with a collar of plus or minus 6%.

Redemption of KMH Limited Partnership ("KMH") Units

On June 19, 2017, total consideration of $30.5 million ($9.8 million of cash and $20.7 million of secured promissory notes) was exchanged for the redemption of all outstanding preferred units (the "Alaris Preferred Units") and the outstanding $3.5 million promissory note as a result of the sale of the majority of KMH's Canadian clinics to a third party (the "Third Party Sale"). The $20.7 million of promissory notes (the "Phoenix Notes") are issued by Phoenix Holdings Limited ("Phoenix"), a company controlled by the former principals of KMH, and are secured by way of first security on Phoenix's U.S. business that was carved out of the Third Party Sale, a right to the residual value in certain real estate assets owned by Phoenix and its principals, and a preferred liquidation position on the equity in the Canadian business retained by Phoenix as a result of the Third Party Sale. Since this transaction the Corporation the remaining loans were reduced to nil in 2018 due to the timing and uncertainty surrounding their collection, please see promissory notes section further down in note 5.

Return of US$2 million of Redeemable Units from DNT, LLC ("DNT")

On May 26, 2017, as per the terms of the partnership agreement, DNT returned US$2 million (CAD$2.7 million) as calculated based on their excess cash flow sweep. The return of US$2.0 million of redeemable shares result in the reduction of DNT net cost to US$68 million (US$40 million permanent units in addition to US$28 million of redeemable units).

Investment in Accscient, LLC ("Accscient")

The Corporation contributed US$20.0 million into Accscient LLC on June 20, 2017 in exchange for an annualized distribution of US$3.0 million. The Accscient distribution will be reset annually based on the percentage change in gross profit with a collar of plus or minus 5%. The Accscient contribution is made up of US$14.0 million of permanent units as well as US$6.0 million of redeemable units. The redeemable units can be redeemed at par by the issuer at any time up to the third anniversary following the closing of the Accscient contribution at Accscient's discretion. After the third anniversary the redeemable units will have the same repurchase metrics as the permanent units.

Investment in Sales Benchmark Index LLC ("SBI")

On August 31, 2017, the Corporation contributed US$85.0 million into SBI in exchange for an annualized distribution of US$11.1 million on August 31, 2017. The SBI distribution will be reset annually based on the percentage change in gross revenue with a collar of plus or minus 8%. The SBI contribution is made up of US$75.0 million of permanent units as well as US$10.0 million of redeemable units. The redeemable units can be redeemed at par by the issuer at any time up to the third anniversary following the closing of the SBI contribution at SBI's discretion. After the third anniversary the redeemable units will have the same repurchase metrics as the permanent units.

Redemption of Sequel Youth and Family Services, LLC ("Sequel") Units

On September 1, 2017, Sequel redeemed all units for total proceeds of US$95.9 million (the "Sequel Redemption"). The Corporation recognized a US$21.6 million (approximately CAD$26.6 million) gain through earnings as proceeds on redemption (US$95.9 million) exceeded total capital invested (US$74.1 million). The Corporation paid US$12.8 million of taxes from the gain on redemption of the Sequel units during the year ended December 31, 2017. These taxes were a direct result of the proceeds on redemption of the Sequel units exceeding the cost basis of the units.

S.M. Group International LP ("Group SM")

During the year ended December 31, 2017, Group SM received the final judgment related to an international arbitration process and the amount awarded was substantially less than anticipated. Therefore, Group SM was not in a position to repay the previously accrued $9.8 million in unpaid distributions. The Corporation therefore recorded a $9.8 million bad debt expense. The fair value of the preferred units were reduced in the year to nil as they are subordinate to the secured and unsecured debt on Group SM's balance sheet. The permanent impairment of $41.0 million of the Group SM units was recorded through the statement of profit or loss.

Sandbox Acquisitions, LLC ("Sandbox") Additional Contribution

In 2017, the Corporation contributed an additional US$13.0 million into Sandbox LLC in exchange for an annualized distribution of US$1.9 million. The Sandbox additional contributions were used to fund an acquisition and a performance earn out in connection with a prior acquisition.

Federal Resources Supply Company ("FED") Additional Contribution

On December 13, 2017, the Corporation contributed an additional US$13.5 million into FED in exchange for an annualized distribution of US$1.8 million. The contribution was used to partially fund an acquisition.

Assumptions used in fair value calculations:

The Corporation recognizes that the determination of fair value of its investments at fair value becomes more judgmental the longer the investment is held. The price the Corporation pays for its investments is fair value at that time. Typically, the risk profile and future cash flows expected from the individual investments change over time. The Corporation's valuation model incorporates these factors each reporting period.

The Corporation estimated the fair value of the investments at fair value by evaluating a number of different methods:

a) A going concern value was determined by calculating the discounted cash flow of the future expected distributions. Key assumptions used include the discount rate used in the calculation and estimates relating to changes in future distributions. 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. Future distributions have been discounted at rates ranging from 13.3% - 19.5%. The Corporation considers the maximum repurchase price in all fair value adjustments of investments. All of the investments except as noted below were valued on this basis at December 31, 2018 and December 31, 2017.

b) A liquidation value is used when there is concern around the collection of future distributions and the partner company is in default with the Corporation or when the Corporation has been notified of redemption and is reasonably certain in collecting the liquidation value. The liquidation value is 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. If not, the value is reduced to what the calculation estimates may be recovered (the liquidation value). There were no investments valued this way as of December 31, 2018. The Corporation's investment in Agility was valued on this basis at December 31, 2017.

From this analysis, management of the Corporation determined the fair value of the investments at fair value for each individual Partner and below is a summary of the fair value adjustments in 2018 and 2017.

Transaction diligence costs:

Prior to the adoption of IFRS 9 on January 1, 2018, the Corporation capitalized transaction diligence costs (legal and accounting costs) relating to a specific investment once a letter of intent had been signed. These costs were added to the fair value of the individual investment. As a result of adopting IFRS 9, the Corporation is now required to expense these costs through profit and loss when incurred. During 2018, the Corporation expensed $3.9 million of transaction diligence costs that would have been capitalized under the previous accounting standard. Under the previous accounting standard capitalized transaction diligence costs increased the cost basis of individual investments and were recognized through net income upon redemption of those partner units, a smaller gain or larger loss.

5. Investments (continued):

Investments *($ thousands)*	Opening Fair Value	Additions	Redemptions	Foreign Exchange Adjustment	Fair Value Adjustment	Closing Fair Value
2018						
Lower Mainland Steel	$ 35,917	$ -	$ -	$ 502	$ 3,350	39,769
Labstat	61,324	-	(61,324)	-	-	-
Agility	26,133	-	(26,472)	337	-	-
SCR	26,203	-	-	-	2,700	28,903
Kimco	29,045	-	-	2,293	(5,372)	25,965
Planet Fitness	57,427	-	(32,337)	3,521	5,454	34,064
DNT	89,933	-	(259)	7,735	(3,350)	94,059
FED	90,788	-	-	7,936	1,584	100,309
Sandbox	46,517	-	-	3,913	2,888	53,318
Providence	40,661	-	-	3,408	(5,062)	39,007
Unify	24,499	-	(8,186)	2,128	-	18,441
ccComm.	7,941	13,200	-	1,150	(536)	21,755
Accscient	25,514	13,027	-	2,939	780	42,261
SBI	107,157	-	-	9,561	8,066	124,783
Heritage	-	18,510	-	2,009	1,036	21,556
Fleet	-	19,801	-	663	-	20,464
BCC	-	59,418	-	3,345	-	62,763
GWM	-	5,975	-	164	-	6,140
GWM loan receivable	-	55,104	-	1,515	-	56,619
Prospective deals	156	(156)	-	-	-	-
Investments - December 31, 2018	**$ 669,216**	**$ 184,878**	**$ (128,577)**	**$ 53,121**	**$ 11,537**	**$ 790,176**
2017						
Lower Mainland Steel	$ 36,215	$ -	$ -	$ (422)	$ 125	$ 35,917
KMH	26,947	-	(26,947)	-	-	-
Labstat	49,199	-	-	-	12,125	61,324
Agility	26,965	-	-	(1,837)	1,004	26,133
SCR	30,488	-	-	-	(4,285)	26,203
Sequel	109,498	214	(101,466)	(8,246)	-	-
Group SM	40,217	-	-	-	(40,217)	-
Kimco	31,166	-	-	(2,122)	-	29,045
Planet Fitness	59,062	-	-	(4,021)	2,385	57,427
DNT	99,197	-	(2,694)	(6,569)	-	89,933
FED	75,680	16,947	-	(5,152)	3,314	90,788
Sandbox	30,538	16,342	-	(1,833)	1,469	46,517
Providence	40,950	-	-	(2,788)	2,498	40,661
Unify (formerly Matisia)	24,672	-	-	(1,680)	1,506	24,499
ccComm.	196	7,994	-	(249)	-	7,941
Accscient	-	26,473	-	(958)	-	25,514
SBI	-	107,270	-	(113)	-	107,157
Prospective deals	102	54	-	-	-	156
Investments - December 31, 2017	**$ 681,093**	**$ 175,293**	**$ (131,107)**	**$ (35,989)**	**$ (20,076)**	**$ 669,216**

Royalties and Distributions:

The Corporation recorded royalty and distribution revenue and interest and other income as follows:

Royalties and distributions:	Year ended December 31	
$ thousands	2018	2017
DNT	$ 14,831	$ 14,216
SBI	14,320	4,642
FED	13,864	11,074
Labstat	8,340	7,940
Sandbox	7,150	4,909
Planet Fitness	6,349	8,488
Providence	6,125	5,843
LMS	5,170	4,746
Accscient	4,711	1,926
Unify	3,502	3,506
Heritage	2,730	-
Body Contour Centers	2,495	-
ccComm	2,299	883
SCR	1,650	600
Fleet	1,495	-
GlobalWide	830	-
Kimco	780	-
End of the Roll	692	1,266
Agility Health	637	3,972
Sequel	-	12,174
Group SM	-	500
Total Royalties and Distributions	$ 97,970	$ 86,684
Other Income		
Interest	2,109	2,389
Total Revenue	**$ 100,079**	**$ 89,073**

As of December 31, 2018, trade receivables are as follows.

Trade Receivables	31-Dec-18	31-Dec-17
$ thousands		
Labstat	$ -	$ 4,239
Agility	-	2,973
Other receivables	923	1,430
Balance at December 31, 2018	**$ 923**	**$ 8,642**

The other receivables are all greater than 90 days, the Corporation expects to reduce this balance to zero within the next twelve months.The Corporation recorded a bad debt expense of $0.5 million during the year ended December 31, 2018 (December 31, 2017 - $9.8 million). In both periods the amounts related to accrued distributions and interest outstanding with Group SM.

Promissory Notes and Other Receivables:

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 alternative financing solutions to assist with short-term needs of the individual businesses. The Corporation will continue to pursue recovery of the full face value for all outstanding promissory notes. Should there be an adverse event to any of the above businesses, the timing and amounts collected could be negatively impacted. The differences between carrying value and face value is due to the timing and uncertainty surrounding the collection of cash flows. Below is a summary of changes in promissory notes and other receivables for the year ended December 31, 2018.

Reconciliation of Promissory Notes and Other Receivables	**Year ended December 31**	
($ thousands)	*31-Dec-18*	*31-Dec-17*
Face Value - Opening	$ 63,906	$ 31,417
Opening provision for credit losses	(16,486)	(1,603)
Carrying Value - Opening	$ 47,420	$ 29,814
Additions - cash	36,154	16,467
Additions - in kind	1,918	17,142
Repayments	(11,923)	(617)
Bad debt expense	(25,431)	(13,617)
Reserve	-	(1,474)
Foreign exchange	2,072	(295)
Carrying Value - Ending	**$ 50,211**	**$ 47,420**
Promissory notes & other receivables - current	$ 23,252	$ 15,403
Promissory notes & other receivables - non-current	$ 26,959	$ 32,017

The Corporation has the following promissory notes and long-term receivables by partner outstanding as of December 31, 2018:

Promissory Notes and Other Receivables by Partner	**Carrying Value**	
($ thousands)	*31-Dec-18*	*31-Dec-17*
Lower Mainland Steel	$ 5,000	$ -
Sandbox - current portion of term debt + revolver	18,136	-
Group SM - Secured Promissory Note (2)	4,500	10,000
Agility - accounts receivable	2,046	-
Kimco - LT accounts receivable	2,494	2,281
Kimco	18,035	4,305
Group SM - Unsecured Promissory Note	-	11,600
Phoenix Secured Loan (1)	-	13,831
Other - former partners	-	5,403
Balance	**$ 50,211**	**$ 47,420**

(1) The Phoenix US assets (formerly KMH) were sold to a third party in the year ended December 31, 2018. Consideration included US$1.5 million of secured debt with additional proceeds of up to US$4.0 million to be received if certain revenue targets are achieved over a period of three years. Due to the increased uncertainty over timing of and collection of amounts owing, the Corporation recorded a full reserve of the carrying amount of the Phoenix US loan and the Phoenix CDN loan totaling $13.8 million during the year ended December 31, 2018. Due to the uncertainty no value has been assigned to either asset as of December 31, 2018.

(2) In 2017, the Corporation provided $10.0 million to Group SM, which is secured against outstanding accounts receivable and has a first lien on the business. On October 15, 2018, all of the assets of Group SM were sold, the Corporation received $5.5 million in cash proceeds during the three months ended December 31, 2018. The remaining $4.5 million is estimated to be received in the next twelve months as the purchaser has indicated to the Corporation an intent to repay the Corporation in the near term (received an additional $0.9 million subsequent to year end). The Corporation is receiving monthly interest payments on the outstanding balance at an interest rate of 6.7% per annum. The Corporation recoreded a bad debt expense of $11.6 million related to Group SM unsecured promissory note during the year ended December 31, 2018.

The expected credit loss model classifies the Corporations outstanding promissory notes and other receivables in three stages based on their credit quality. Stage 1 represents the lowest credit risk and stage 3 representing loans that are in default or past due. As at December 31, 2018 the Corporation had $47.7 million (December 31, 2017 - $19.7 million) of promissory notes and other receivables classified as stage 1 and $2.5 million classified as stage 3 (December 31, 2017 - $27.7 million). There was no transfer between stages during the year ended December 31, 2018.

Based on the opening credit loss provision $16.5 million and the addition of $25.4 million during the period the total credit loss provision as at December 31, 2018 is $41.9 million.

6. Share capital:

The Corporation has authorized, issued and outstanding, 36,496,247 voting common shares as at December 31, 2018 (December 31, 2017 – 36,481,247).

Issued Common Shares	Number of Shares	Amount ($)
	thousands	*$ thousands*
Balance at December 31, 2016	36,336	$ 617,893
Issued after employee / director vesting	109	2,512
Cashless options exercised in the period	36	-
Fair value of options exercised in the period	-	438
Balance at December 31, 2017	36,481	$ 620,842
RSUs vested	15	240
Balance at December 31, 2018	**36,496**	**$ 621,082**

Weighted Average Shares Outstanding	Year ended December 31	
thousands	2018	2017
Weighted average shares outstanding, basic	36,490	36,447
Effect of outstanding options	-	15
Effect of outstanding RSUs	276	292
Weighted average shares outstanding, fully diluted	36,766	36,754

2,242,364 and 1,723,160 options were excluded from the calculation as they were anti-dilutive at December 31, 2018 and December 31, 2017 respectively.

Dividends

The Corporation increased their monthly dividend from $0.135 per common share to $0.1375 in November 2018 (effective December 2018). The Corporation declared dividends of $0.135 per common share for the first eleven months of 2018, $1.6225 per share and $59.3 million in aggregate (2017 - $1.62 per share and $59.0 million in aggregate).

7. Loans and borrowings:

As at December 31, 2018 the Corporation had a $300 million credit facility with a syndicate of Canadian chartered banks, the facility has a four year term with a maturity date in September 2021. The interest rate is based on a combination of the CAD Prime Rate ("Prime"), Bankers' Acceptances ("BA"), US Base Rate ("USBR") and LIBOR. The

Corporation realized a blended interest rate of 5.7% for the year ended December 31, 2018. During the year, another bank joined the lending syndicate and the facility was increased from $280 million to $300 million and at the same time the accordion feature was reduced from $70 million to $50 million. At December 31, 2018, the facility was $228.1 million drawn (December 31, 2017 - $173.5 million).

Debt Continuity	Denominated Debt		Total
$ thousands	$USD	$CAD	$CAD
Balance at December 31, 2017	**$ 112,700**	**$ 32,000**	**$ 173,464**
Senior debt repayment (Agility redemption)	(26,500)	N/A	(34,039)
Senior debt advance (Kimco sub debt)	6,000	N/A	7,739
Senior debt advance (ccComm. tranche #2)	10,000	N/A	12,993
Senior debt advance (Fleet)	15,000	N/A	19,511
Senior debt repayment (Labstat redemption)	(30,000)	(32,000)	(71,894)
Senior debt repayment (PF partial redemption)	(28,000)	N/A	(35,930)
Senior debt repayment (EOR redemption)	(5,000)	N/A	(6,583)
Senior debt advance (Accscient tranches #2, #3, #4)	18,000	N/A	23,877
Senior debt advance (Sono Bello)	46,000	N/A	60,504
Senior debt advance (LMS promissory note)	N/A	5,000	5,000
Senior debt advance (Sandbox debt purchase)	9,000	N/A	11,755
Senior debt advance (GlobalWide)	46,000	N/A	60,343
Senior debt repayment (Group SM secured note proceeds)	N/A	(5,000)	(5,000)
Senior debt repayment (Unify partial redemption)	(6,000)	N/A	(8,041)
Unrealized FX (gain) / loss on USD denominated debt	N/A	N/A	14,404
Balance at December 31, 2018	**$ 167,200**	**$ -**	**$ 228,103**

At December 31, 2018 the Corporation met all of its covenants as required by the facility. Those covenants include a maximum funded debt to contracted EBITDA of 2.5:1, which can be increased to 3.0:1 for up to ninety days (actual ratio is 2.30:1 at December 31, 2018); minimum tangible net worth of $450.0 million (actual amount is $635.8 million at December 31, 2018); and a minimum fixed charge coverage ratio of 1:1 (actual ratio is 1.21:1 at December 31, 2018).

8. 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 Restricted Share Units ("RSUs") and Stock Options ("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 403,441 and issued 276,651 RSUs to management and Directors as of December 31, 2018. The RSUs issued to directors (78,605) vest over a three year period. The RSUs issued to management (198,046) do not vest until the end of a three year period (119,000 in July 2018 not vested yet due to restrictions under the RSU plan, 47,080 in July 2019, and 31,966 in October 2020) and are subject to certain performance conditions relating to operating cash flow per share. The Corporation has approved 157,300 RSUs for management and 15,000 RSUs for directors that have not yet been granted due to restrictions under the RSU plan. 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.

The Corporation has reserved 3,102,181 and issued 2,242,364 options as of December 31, 2018. The options outstanding at December 31, 2018, have an exercise price in the range of $20.60 to $33.87, a weighted average exercise price of $25.56 (2017 – $25.56) and a weighted average contractual life of 2.05 years (2017 – 2.96 years).

For the year ended December 31, 2018 the Corporation incurred stock-based compensation expenses of $2.9 million (2017 - $3.4 million) which includes: $1.9 million (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2017 - $2.2 million); and $1.0 million (non-cash expense) for the amortization of the fair value of outstanding stock options (2017 - $1.2 million).

Options Summary	Weighted Avg Exercise Price 2018	Number of Options - 2018	Weighted Avg Exercise Price 2017	Number of Options - 2017
Outstanding at January 1	$25.56	2,242,364	$26.94	1,726,182
Exercised during the year	$0.00	-	$19.40	(197,525)
Expired during the year	$0.00	-	$23.63	(356,511)
Forfeited during the year	$0.00	-	$0.00	-
Granted during the year	$0.00	-	$21.56	1,070,218
Outstanding at December 31	$25.56	2,242,364	$25.56	2,242,364
Exercisable at December 31	$25.08	1,043,432	$30.38	865,788

During the year ending December 31, 2018, the Corporation issued 15,000 shares as a result of vested RSUs.

The following table summarizes the options outstanding and exercisable as at December 31, 2018:

Exercise price	Number outstanding		Weighted average remaining life (years)		Number exercisable	
	2018	2017	2018	2017	2018	2017
$33.87	407,560	407,560	0.25	0.56	-	407,560
$26.79	45,000	45,000	0.30	1.05	45,000	45,000
$31.15	193,739	193,739	0.59	1.59	193,739	145,304
$33.06	20,000	20,000	0.70	1.70	20,000	15,000
$24.78	505,847	505,847	1.57	2.57	379,385	252,924
$22.47	521,014	521,014	3.07	4.07	260,507	-
$22.33	30,000	30,000	3.20	4.20	15,000	-
$20.60	519,204	519,204	3.78	4.78	129,801	-
Total	2,242,364	2,242,364	2.05	2.96	1,043,432	865,788

9. Income taxes:

The Corporation's consolidated statutory tax rate for the year ended December 31, 2018 was 26.64% (year ended December 31, 2017 – 26.32%). The change in the Corporation's consolidated statutory tax rate from 2017 was caused by income being allocated to different provinces than in the prior year. Income tax expense is calculated by using the combined federal and provincial and state 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:

Income Tax Expense	2018	2017
Earnings before income taxes	$ 76,232	$ 22,155
Combined federal and provincial statutory income tax rate	26.64%	26.32%
Expected income tax provision	$ 20,308	$ 5,831
Rate differences of foreign jurisdictions	(9,539)	(249)
Impact of change in US federal tax rates	-	(5,975)
Non-taxable portion of capital gains	(478)	8,649
Non-deductible expense and other	1,120	2,620
Change in unrecognized deferred tax assets	5,599	
Prior period adjustment	(1,574)	(602)
Balance at December 31, 2018	**$ 15,436**	**$ 10,274**

Cash taxes paid during the year were $10.5 million (of which $2.6 million related to the gain on the redemption of the Agility units), in 2017 the Corporation paid $26.6 million (which included $16.0 million of cash taxes related to the gain on redemption of Sequel units).

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

Deferred income tax assets (liabilities):	2018	2017
Share issue costs	401	1,035
Intangible assets	-	(1,681)
Investment tax credits	(797)	(1,500)
Preferred partnership units	(6,930)	(8,523)
Partnership deferral	-	6,061
Investment in sub or other items	1,113	689
Derivatives	(3,207)	(1,626)
Foreign exchange on loan receivable	(651)	(205)
Foreign exchange on loan payable	1,205	
Distributions to be taxed in future years	(2,521)	(2,442)
Bad debt	1,130	
Valuation allowance	(5,599)	-
Balance at December 31, 2018	**$ (15,856)**	**$ (8,192)**

As at December 31, 2018, the Corporation has unused federal investment tax credits which expire from time to time as follows:

Unused Federal Investment Tax Credits	2018
2022	$ 309
2023	1,841
2024	648
Balance at December 31, 2018	**$ 2,798**

Movement in deferred tax balances during the year	Deferred Income Taxes
Balance at December 31, 2016	**$ (22,458)**
Recognized in profit and loss	11,815
Reduction to investment tax credit	1,898
Recognized directly in equity	-
Recognized in other comprehensive income	(984)
Currency translation and other	1,537
Balance at December 31, 2017	**(8,192)**
Recognized in profit and loss	(6,713)
Reduction to investment tax credit	159
Recognized directly in equity	-
Recognized in other comprehensive income	-
Currency translation and other	(1,110)
Balance at December 31, 2018	**$ (15,856)**

In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009. The Corporation has since received notices of reassessment from the Canada Revenue Agency in respect of its taxation year ended December 30, 2009 through December 30, 2017 (collectively the “Reassessments”). Pursuant to the Reassessments, the deduction of approximately $121.2 million of non-capital losses and utilization of $7.9 million in investment tax credits (“ITC’s”) by the Corporation was denied, resulting in reassessed taxes and interest of approximately $47.7 million. Subsequent to filing the notice of objection for the July 14, 2009 taxation year, Alaris received an additional proposal from the CRA pursuant to which the CRA is proposing to apply the general anti avoidance rule to deny the use of non-capital losses, accumulated scientific research and experimental development expenditures and investment tax credits. The proposal does not impact the Corporation's previously disclosed assessment of the total potential tax liability (including interest) or the deposits required to be paid in order to dispute the CRA's reassessments. 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 all tax filings to date were filed correctly and that it will be successful in appealing such Reassessments. The Corporation intends to continue to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amounts as a deposit to the Canada Revenue Agency. The Corporation has paid a total of $20.2 million in deposits to the CRA relating to the Reassessments to date. It is possible that the Corporation may be reassessed with respect to the deduction of its tax pools in respect of its tax filings in respect of the 2018 taxation years, thereby disallowing ITC’s of $0.2 million, on the same basis. The carrying values of the remaining ITC’s of $2.8 million at December 31, 2018 are at risk should the Corporation be unsuccessful in defending its position. The Corporation anticipates that legal proceedings through the CRA and the courts will take considerable time to resolve and the payment of the deposits, and any taxes, interest or penalties owing will not materially impact the Corporation’s payout ratio.

The Corporation firmly believes it will be successful in defending its position and therefore, any current or future deposit paid to the CRA would be refunded, plus interest. The Corporation will continue to file its tax returns by claiming the remaining available investment tax credits in subsequent tax filings. As at December 31, 2018, the CRA has denied the following tax claims and assessed the related taxes and interest:

Tax Year	ITCs Applied	Losses Applied	Estimated tax and interest
July 2009		$ 10,532	$ 4,475
December 2009		1,916	764
December 2010		14,646	5,598
December 2011		14,992	5,215
December 2012		16,774	4,561
December 2013		22,642	6,644
December 2014		29,153	8,751
December 2015	2,315	10,560	4,937
December 2016	2,905	-	4,979
December 2017	2,710	-	1,781
Balance at December 31, 2018	**$ 7,930**	**$ 121,215**	**$ 47,705**

The comparative period deferred tax balances have been reclassified to conform to the current period presentation. The Corporation previously reported a net deferred tax liability of $8.2 million. This amount has been presented in these financial statements in the comparative period as a deferred tax asset of $5.4 million and a deferred tax liability of $13.6 million.

10. Fair Value of Financial Instruments:

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, 2018 and December 31, 2017, are measured at fair value on a recurring basis using level 2 or level 3 inputs. Discount rates and estimates used to determine changes in future distributions from each investment are the primary inputs in the fair value models and are generally unobservable. Accordingly, these fair value measures are classified as level 3. There were no transfers between level 2 or level 3 classified assets and liabilities during the year ended December 31, 2018.

Fair value classification *($ thousands)*	**Level 1**	**Level 2**	**Level 3**	**Total**
31-Dec-18				
Foreign exchange contracts	$ -	$ (1,333)	$ -	$ (1,333)
Investments	-	-	790,175	790,175
Total at December 31, 2018	**$ -**	$ (1,333)	**$ 790,175**	**$ 788,842**
31-Dec-17	**Level 1**	**Level 2**	**Level 3**	**Total**
Foreign exchange contracts	$ -	$ 1,430	$ -	$ 1,430
Investments	-	-	669,216	669,216
Total at December 31, 2017	**$ -**	**$ 1,430**	**$ 669,216**	**$ 670,646**

The Corporation purchases forward exchange rate contracts to match expected after tax distributions in US dollars on a rolling 12 month basis and also for between 25% to 60% of the expected distributions on a rolling 12 to 24 month basis. The notional value of outstanding foreign exchange contracts is US$25.4 million as at December 31, 2018 (US$33.6 million as of December 31, 2017).

11. Commitments:

The Corporation has annual commitments under its current office lease of $0.6 million and a US$45.0 million commitment to Body Contour Centers ("BCC") to fund additional contributions when specified financial metrics are achieved (refer to note 5 for additional disclosure).

Commitments *($ thousands)*	**31-Dec-18**
2019	$ 34,540
2020	27,502
Total Commitments	**$ 62,041**

12. Related Parties:

In addition to their salaries, the Corporation also provides long-term compensation in the form of options and RSUs. Due to restrictions under the Option and RSU plans no Options or RSUs were granted to key management personnel during the year ended December 31, 2018. Key management personnel compensation comprised the following:

Key Management Personnel *($ thousands)*	**2018**	**2017**
Base salaries and benefits	$ 892	$ 854
Bonus	920	407
Non cash stock-based compensation	-	2,033
Total for year ended December 31	**$ 1,812**	**$ 3,294**

13. Subsequent Events:

Accscient Additional Contribution

On January 8, 2019 the Corporation contributed an additional US$8.0 million into Accscient, in exchange for incremental annual distributions of US$1.1 million. This was the fourth additional contribution into Accscient bringing the total contributed capital to US$38.0 million and annualized distributions to US$5.6 million. The proceeds were used to partially fund an acquisition in their related industry.

Sandbox Additional Contribution

On February 22, 2019, the Corporation contributed an additional US$5.0 million into Sandbox, in exchange for incremental distributions of US$0.8 million. The fourth additional contribution into Sandbox has a minimum repurchase premium of US$1.0 million and may include a percentage of common equity upon redemption. The proceeds were used to fund working capital.