Consolidated Financial Statements of

ALARIS ROYALTY CORP.

Audited statements for the years ended
December 31, 2009 and 2008

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Alaris Royalty Corp. (the "Entity") as at December 31, 2009 and 2008 and the consolidated statements of operations, deficit, and cash flows for each of the years then ended. These financial statements are the responsibility of the Entity's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2009 and 2008 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

KPMG LLP

Calgary, Canada

March 10, 2010

ALARIS ROYALTY CORP.

Consolidated Balance Sheets

	December 31, 2009	2008
Assets		
Current assets:		
Cash	$ 3,826,000	$ 1,743,936
Accounts receivable	2,470	11,307
Prepaid expenses	103,472	35,417
Future income taxes (note 10)	2,996,000	3,649,476
Investment tax credit receivable (note 10)	–	150,798
	6,927,942	5,590,934
Investment tax credit receivable (note 10)	11,030,007	6,441,259
Future income taxes (note 10)	22,248,900	25,528,693
Equipment (note 4)	74,477	90,458
Investments (note 3)		
Preferred LP units	111,124,642	98,124,642
Intangible assets	13,070,150	13,243,384
	124,194,792	111,368,026
	$ 164,476,118	$ 149,019,370
Liabilities and Shareholders' Equity/(Deficit)		
Current liabilities:		
Accounts payable and accrued liabilities	$ 939,085	$ 443,553
Dividends payable	802,604	1,094,620
Future income taxes (note 10)	47,808	42,932
Bank indebtedness (note 5)	2,850,000	–
Subordinated debt (note 5)	6,500,000	6,500,000
	11,139,497	8,081,105
Bank indebtedness (note 5)	19,700,000	25,000,000
Future income taxes (note 10)	1,347,755	3,136,988
Deferred credit (note 10)	23,661,017	27,497,912
Shareholders' equity/(deficit):		
Shareholder's capital (note 6)	111,125,039	98,278,747
Warrants (note 6)	845,000	–
Contributed surplus	1,471,333	264,472
Deficit	(4,813,523)	(13,239,854)
	108,627,849	85,303,365
Commitments (note 13)		
Subsequent event (note 14)		
	$ 164,476,118	$ 149,019,370

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(signed) "*Jack Lee*" Director

(signed) "*Mary Ritchie*" Director

ALARIS ROYALTY CORP.

Consolidated Statements of Operations and Deficit

	Year ended December 31, 2009	2008
Revenues:		
Royalties and distributions (note 3)	$ 18,066,783	$ 18,934,364
Interest and other	4,787	96,380
	18,071,570	19,030,744
Expenses:		
Interest	2,166,257	8,881,023
Non-cash stock based compensation (Note 8)	1,714,209	8,232,105
Stock based compensation (Note 8)	221,703	102,306
Salaries and benefits	984,933	994,676
Legal and accounting fees	471,848	664,922
Corporate and office	460,018	520,047
Restructuring and financing (Note 1)	-	491,032
Financing	250,000	265,000
Depreciation and amortization	209,449	234,896
	6,478,417	20,386,007
Net Income (Loss) before taxes	11,593,153	(1,355,263)
Future income tax expense (recovery) (note 10)	(5,903,511)	1,696,676
Net Income (Loss) and other comprehensive income for the year	17,496,664	(3,051,939)
Deficit, beginning of year	(13,239,854)	(2,542,839)
Distributions to unitholders (note 7)	-	(2,166,000)
Dividends to shareholders (note 7)	(9,070,333)	(5,479,076)
Deficit, end of year	$ (4,813,523)	$ (13,239,854)
Earnings per share, basic	$ 1.83	$ (0.65)
Earnings per share, fully diluted	$ 1.83	$ (0.65)
Weighted average shares outstanding, basic	9,574,916	4,691,024
Weighted average shares outstanding, fully diluted	9,574,916	4,691,024

See accompanying notes to consolidated financial statements.

ALARIS ROYALTY CORP.

Consolidated Statements of Cash Flows

	Year ended December 31, 2009	2008
Cash provided by (used in):		
Operations:		
Net Income (Loss) for the year	$17,496,664	$(3,051,939)
Add non-cash items:		
Depreciation and amortization	209,449	234,896
Stock based compensation (note 8)	1,714,209	8,232,105
Income tax expense (recovery)	(5,903,511)	1,696,676
	13,516,811	7,111,738
Change in non-cash working capital	436,314	(278,512)
	13,953,125	6,833,226
Investing:		
Purchase of Preferred LP Units	(13,000,000)	–
Purchase of capital assets	(20,234)	(10,239)
	(13,020,234)	(10,239)
Financing:		
Distributions to unitholders	–	(2,166,000)
Dividends to shareholders	(9,362,348)	(4,384,456)
New share capital	12,961,521	51,730,998
Repayment of debt	(2,450,000)	(51,500,000)
Repurchase odd-lot shares	–	(358,932)
	1,149,173	(6,678,390)
Increase in cash	2,082,064	144,597
Cash, beginning of year	1,743,936	1,599,339
Cash, end of year	$ 3,826,000	$ 1,743,936

See accompanying notes to consolidated financial statements

1. Basis of presentation:

On July 31, 2008 Alaris Royalty Corp., formerly 6550568 Canada Inc. (“Alaris” or the “Corporation”) acquired Alaris Income Growth Fund L.P. (the “Partnership”) (the “Acquisition”). After the Acquisition, the former owners of the Partnership held the largest percentage (although less than 50%) of the Common Voting Shares and provided the Corporation’s management, therefore the Partnership was deemed to be the acquirer for accounting purposes. Accordingly, the transaction has been accounted for as a reverse takeover. The share capital up to July 31, 2008 was that of the Partnership. Subsequent to the transaction date, the share capital was that of the Corporation.

Pursuant to the Acquisition, Alaris acquired: (i) the 750,000 issued and outstanding units (the “Alaris Partnership Units”) of the Partnership held by Alaris Commercial Trust, a trust owned by the Partnership's largest owner, by the issuance of 666,667 voting common shares in the capital of Alaris (“Common Shares”); and (ii) all of the outstanding shares of Alaris IGF Corp. (“Alaris GP”), the general partner of the Partnership, from the holders thereof, being Alaris Commercial Trust and the management team of the Corporation, who purchased their shares in Alaris GP shortly before the Acquisition pursuant to the terms of employment stock options, by issuance of 666,668 non-voting common shares in the capital of Alaris Royalty Corp. (“Non-Voting Shares”). Alaris GP owns 750,010 Partnership Units, being the remaining issued and outstanding Partnership Units, and therefore, upon the completion of the Acquisition the Corporation acquired directly and indirectly 100% of the issued and outstanding Alaris Partnership Units.

On July 31, 2008, and prior to the Acquisition, Alaris satisfied the release conditions of its previously completed subscription receipt financing and issued an aggregate of 4,607,213 Common Shares to the former holders of subscription receipts in accordance with the terms of the subscription receipts. The subscription receipts had been issued at price of $12 per subscription receipt for aggregate gross proceeds of $55,286,556 less share issue costs of $3,622,225. In addition, the Corporation acquired $83,500,000 of the Partnership’s outstanding $90,000,000 subordinated debt from 409790 Alberta Ltd. for $51,500,000 in cash and the issuance of 2,666,667 Common Shares.

Alaris has since continued the business and operations of the Partnership. The Partnership’s operations consist primarily of investments in operating entities, typically in the form of long-term license and royalty arrangements or preferred limited partnership interests.

2. Significant accounting policies:

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(a) Investments:

Investments result from: (1) the direct or indirect purchase of intellectual property from various organizations/vendors and the subsequent license-back of the right for exclusive use to the vendor; or (2) the direct or indirect subscription for a preferred interest in a limited partnership; which interests provide a monthly distribution that is adjusted annually on the basis of a formula linked to revenues, gross margin, same-store sales, or other “top-line” measures as outlined in each of the respective agreements. Investments are initially recognized and measured at cost, including acquisition costs incurred after a letter of intent is signed, such as financial and legal due diligence fees relating directly to the purchase.

Investments that are a royalty structure are being amortized on a straight-line basis over an 80-year period and individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Investments that are a preferred interest in a limited partnership are not amortized but are assessed for objective evidence of impairment at each balance sheet date. When there is objective evidence that the investment has been impaired, and there is a decline in the recoverable amount below cost that is other than temporary, the amount of the impairment loss is the difference between the carrying amount of the investment and its fair value. Fair value is estimated using discounted cash flows.

(b) Equipment:

Equipment is recorded at cost. Depreciation is provided for over the estimated useful lives of assets on a declining balance basis.

(c) Intangible assets:

Effective January 1, 2009, the Corporation adopted CICA section 3064 Goodwill and Intangible Assets. The implementation of this standard did not have a material effect on the Company’s financial statements.

(d) Revenue recognition:

Revenue consists of amounts generated by licensing intellectual property or distributions from preferred interests in a limited partnership and is recognized when the monthly payments become due and are considered collectible.

2. Significant accounting policies (continued):

(e) Financial instruments:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Corporation has designated its financial instruments into the following categories applying the indicated measurement methods:

Financial Instrument	Category	Measurement Method
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Preferred LP units	Available for sale	Cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Bank indebtedness	Other liabilities	Amortized cost
Subordinated debt	Other liabilities	Amortized cost

The Corporation will assess at each reporting period whether there is a financial asset, other than those classified as held for trading, that is impaired. An impairment loss, other than temporary, is included in net earnings.

The Corporation has no embedded derivatives.

The Corporation records all transaction costs incurred in relation to the acquisition of investments classified as “available for sale” as an additional cost of the investment.

The Corporation applies trade-date accounting for the recognition of a purchase or sale of cash equivalents and derivative contracts.

(f) Income taxes:

The Corporation follows the asset and liability method of accounting for income taxes. The Corporation is a taxable entity under the Income Tax Act (Canada).

(g) Stock-based compensation:

Stock-based payments to non-employees and direct awards of stock to employees and non-employees are accounted for using a fair-value method of accounting.

2. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Significant management estimates include stock-based compensation expenses, future income tax amounts, valuation of intangible assets and preferred LP units, collectability of future royalties and distributions, and valuation of outstanding warrants.

3. Investments:

December 31, 2009	Acquisition Cost	Capitalized Costs	Accumulated Amortization	Net Cost
Lifemark Health	$ 59,500,000	$ 291,362	$ –	$ 59,791,362
Lower Mainland Steel	51,000,000	333,280	–	51,333,280
Total Preferred LP Units	110,500,000	624,642	–	111,124,642
End of the Roll	7,200,000	74,920	(431,910)	6,843,010
MEDIchair	6,500,000	83,758	(356,618)	6,227,140
Total Intangible Assets	13,700,000	158,678	(788,528)	13,070,150
	$ 124,200,000	$ 783,320	$ (788,528)	$ 124,194,792
December 31, 2008				
Lifemark Health	$ 46,500,000	$ 291,362	$ –	$ 46,791,362
Lower Mainland Steel	51,000,000	333,280	–	51,333,280
Total Preferred LP Units	97,500,000	624,642	–	98,124,642
End of the Roll	7,200,000	74,920	(340,971)	6,933,949
MEDIchair	6,500,000	83,758	(274,323)	6,309,435
Total Intangible Assets	13,700,000	158,678	(615,294)	13,243,384
	$ 111,200,000	$ 783,320	$ (615,294)	$ 111,368,026

3. Investments (continued):

Royalties and distributions:

	Year ended December 31, 2009	2008
Lifemark Health	$ 8,379,439	$ 7,465,464
Lower Mainland Steel	7,110,007	8,904,210
End of the Roll	1,395,568	1,434,137
MEDIchair	1,181,768	1,130,553
	$ 18,066,783	$ 18,934,364

I – Preferred LP Units

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

The Corporation holds 900,000 class A preferred partnership units ("LifeMark A Units") and 5,050,000 class B preferred partnership units ("LifeMark B Units") in LifeMark Health (the "LifeMark Investment") and were acquired as follows:

	A Units	B Units	Cost
December 31, 2008	900,000	3,750,000	$ 46,500,000
June 30, 2009	–	100,000	1,000,000
October 22, 2009	–	1,200,000	12,000,000
December 31, 2009	900,000	5,050,000	$59,500,000

Pursuant to the LifeMark Health partnership agreement (the "LifeMark Partnership Agreement") dated December 30, 2004, the LifeMark A Units entitle the Corporation to receive an annual preferred distribution (the "A Unit Preferred Distribution") in priority to distributions on LifeMark Health's other partnership units in a minimum amount of $1.46 million. The minimum amount is adjusted in each subsequent fiscal year to the greater of (i) $1.46 million; and (ii) the A Unit Preferred Distribution for the prior fiscal year multiplied by the percentage increase in LifeMark Health's Same Clinic Sales (as defined in the LifeMark Partnership Agreement), being generally LifeMark Health's annual revenue from clinics that have been open for at least two years, for the previous year. Distributions on the LifeMark A Units are receivable monthly.

3. Investments (continued):

(a) Investment in LifeMark Health Limited Partnership ("LifeMark Health") (continued):

Pursuant to the LifeMark Partnership Agreement, the LifeMark B Units entitle the Corporation to receive an annual preferred distribution (the "B Unit Preferred Distribution") in priority to distributions on LifeMark Health's other partnership units, other than the LifeMark A Units, in an amount equal to the B Unit Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in LifeMark Health's Same Clinic Sales for the previous fiscal year. Distributions on the LifeMark B Units are receivable monthly.

LifeMark Health has the option at any time after December 30, 2009 (i) to repurchase all (but not less than all) of the LifeMark A and B Preferred Units at a pre-negotiated premium to the original purchase price.

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

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

Pursuant to the LMS partnership agreement (the "LMS Partnership Agreement") dated April 2, 2007 and as amended December 21, 2007, the LMS Units entitle the Corporation to receive an annual preferred distribution (the "Preferred Distribution") in priority to distributions on LMS' other partnership units. For the year ending December 31, 2009, the Corporation was entitled to a base preferred distribution of $7.1 million. The base is in two distinct portions and is adjusted at two points (January 1st and April 1st) in each subsequent twelve month period to the Preferred Distribution for the prior twelve month period multiplied by the percentage increase or decrease in LMS' Gross Profit (as defined in the LMS Partnership Agreement) for the most recently completed fiscal year. Effective January 1, 2010, the LMS Units will entitle the Corporation to receive approximately $2.1 million over the next twelve months based on the most recently completed fiscal year for LMS (September 30, 2009). Distributions on the LMS Units are paid monthly.

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

3. Investments (continued):

II – Intangible Assets

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

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

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

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

On September 12, 2005, the Corporation purchased certain intellectual property (the "MEDIchair IP") from MEDIchair for an aggregate purchase price of $6.5 million (the "MEDIchair Investment") pursuant to an acquisition agreement (the "MEDIchair Acquisition Agreement") dated September 12, 2005. The MEDIchair IP includes MEDIchair's trademarks, trade names, website, and proprietary system for operating franchises. The MEDIchair IP was subsequently licensed to MEDIchair for a term (the "Term") of 80 years pursuant to a license agreement (the "MEDIchair License Agreement") dated September 12, 2005 in consideration of an annual royalty (the "Royalty"). The Royalty for the 12-month period from October 1, 2006 to September 30, 2007 was $1.053 million. The Royalty for each subsequent 12-month period during the Term is calculated by increasing or decreasing the Royalty in MEDIchair's fiscal year just ending by the percentage change in Same Store Royalties (as defined in the MEDIchair License Agreement), being generally the total annual royalties received by MEDIchair from all franchisees whose retail stores have been opened for at least two years over the fiscal year immediately preceding the fiscal year just ending, subject to a maximum percentage change in any year of 10%.

MEDIchair has the option at any time after October 1, 2010 to repurchase the MEDIchair IP (and terminate the Royalty) at a pre-negotiated premium to the original purchase price.

4. Equipment:

Equipment consists of leasehold improvements, furniture and fixtures, and computer equipment. The amounts are net of accumulated depreciation of $104,532 (December 31, 2008 - $279,927).

5. Debt

The Corporation has a $25,000,000 secured revolving credit facility with a syndicate of Canadian chartered banks. Interest is payable at the lenders' prime rate plus 3.00% (5.25% at December 31, 2009). The term out date under the credit facility is December 17, 2010. If an extension is not received by December 17, 2010, the facility will be repaid in thirty-six equal monthly installments commencing January 18, 2011. As part of an amendment to the original facility, the banks required principal repayments of $950,000 on December 31, 2009 and then in each of the first three quarters in 2010 (total of $2.85 million). Therefore at December 31, 2009, only the required principal repayments are shown as a current liability as no further payments would be required before January 2011 under the terms of the agreement. There are financial covenants under this facility and at December 31, 2009, the Corporation is in compliance with each of the covenants based on a letter received by the Corporation from the lending syndicate clarifying the exclusion of certain non-cash and extraordinary amounts in the calculation of the covenants for the remainder of the term of the agreement. Bank fees of $250,000 were paid in the year ended December 31, 2009 (2008 - $265,000) as a result of the renewal of the facility in December 2009.

The Corporation has a $6,500,000 unsecured demand facility with a company controlled by its largest shareholder. The loan was originally $90,000,000 and on July 31, 2008, $51,500,000 was repaid and $32,000,000 was purchased for shares of the Corporation. Interest is payable at 13.00% per annum.

6. Shareholders equity:

The Corporation has authorized, issued and outstanding, 10,799,098 voting, 666,668 non-voting common shares.

Issued Common Shares	Number of Shares	Amount
Balance at December 31, 2008	8,455,169	$90,278,747
Issued in lieu of dividends on restricted share units	12,679	132,348
Issued by short form prospectus	2,300,000	12,955,000
Short form prospectus costs	-	(838,483)
Income tax benefit of share issue costs		222,427
Issued upon RSUs vesting to Directors	31,250	375,000
Balance at December 31, 2009 (Voting shares)	10,799,098	103,125,039
Non-voting shares	666,668	8,000,000
Balance at December 31, 2009 (Voting, non-voting)	11,465,766	$ 111,125,039

Issued Warrants	Number of Warrants	Amount
Balance at December 31, 2008	–	$ –
Issued on October 22, 2009	1,150,000	845,000
Balance at December 31, 2009	1,150,000	$ 845,000

The warrants are exercisable at $7.50 at any time up to twenty-four (24) months from the date of their issue (October 22, 2011), subject to a mandatory exercise if, any time after twelve (12) months from their issue, if the volume weighted average price of the voting common shares on the Toronto Stock Exchange is above $9.00 per common share for twenty (20) consecutive trading days.

7. Dividends and Distributions:

For January and February 2009, the Corporation had declared a dividend of $0.12 per voting and non-voting common share and for each month from March through December, the Corporation declared a dividend of $0.07 per voting and non-voting common share ($9,070,333 in aggregate).

Prior to the Acquisition in 2008, the Partnership paid $1.44 per unit in distributions ($2,166,000) to its unitholders. After the Acquisition, dividends were declared in August 2008 through December 2008 at $0.12 per share totalling $5,479,076 for the prior year.

8. Stock-based compensation:

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

The RSU Plan will settle in voting common shares which may be issued from treasury or purchased on the Toronto Stock Exchange. The Corporation has reserved 591,662 and issued 384,400 RSUs to management and Directors as of December 31, 2009. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (290,650) do not vest until the end of the three-year period and are subject to certain performance conditions relating to operating cash flow per share. The stock-based compensation expense relating to the RSU Plan is based on the issue price at the time of grant and management’s estimate of the future performance conditions and will be amortized over the thirty-six month vesting period. Payments in lieu of dividends on the unvested RSUs are made monthly in accordance with the Corporation’s dividend policy. Payments to management are split evenly between cash and common shares.

For the year ended December 31, 2009, the Corporation incurred stock-based compensation expenses of $1,935,912 which includes: $1,505,300 (non-cash expense) for the 2009 portion of the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan; $221,703 for payments to staff and directors in lieu of dividends under the RSU Plan; $132,348 (non-cash expense) for shares issued in lieu of dividends under the RSU Plan; and $76,561 (non-cash expense) for the 2009 amortization of the fair value of outstanding stock options. The Corporation has reserved 323,973 and issued 319,150 options (219,150 in 2008 and 100,000 in 2009) that vest over a four-year period and expire in five years. The fair value of the warrants (note 6) and options were calculated using a Black-Scholes model with the following assumptions:

	Warrants 2009	Options 2008	Options 2009
Dividend yield	12%	12%	12%
Expected volatility	53%	38%	56%
Risk free rate of return	2.46%	2.73%	2.74%
Expected life	2 years	5 years	5 years
Weighted average value per option/warrant	$ 0.7560	$ 1.2400	$ 1.3430

9. Financial risk management

Effective January 1, 2009, the Corporation adopted CICA sections 3862 Financial Instrument Disclosure and 3863 Financial Instrument Presentation and the information regarding the enhanced disclosure is set out below.

(a) Credit risk and other price risk:

Other price risk is the risk that future cash flows associated with portfolio investments will fluctuate. Cash flow from investments are 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.

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investments. Concentrations of credit risk exist when a significant proportion of the Corporation's assets are invested in a small number of individually significant investments, and investments with similar characteristics and/or subject to similar economic, political and other conditions that may prevail.

The Corporation is exposed to credit related losses on current and future amounts receivable pursuant to investment agreements. In the event of non-performance by counterparties, future royalty and distributions revenue from the investments could be reduced, resulting in impairment of investment values. The investment agreements provide that payments are receivable monthly no later than the last day of the month. As at December 31, 2009, all amounts receivable for the year ended December 31, 2009 had been received.

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 carrying amount of investments, accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Corporation does not have an allowance for doubtful accounts as at December 31, 2009 and did not provide for any doubtful accounts nor was it required to write-off any receivables or investments during the year ended December 31, 2009.

9. Financial risk management (continued):

(b) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Corporation's reputation. The Corporation has the following financial instruments that mature as follows:

	Total	0-6 Months	6 mo – 1 yr	1 – 2 years	3 – 4 years
Accounts payable and accrued liabilities	939,085	939,085	0	0	0
Dividends payable	802,604	802,604	0	0	0
Bank indebtedness	22,550,000	1,900,000	950,000	13,133,333	6,566,667
Subordinated debt	6,500,000	6,500,000	0	0	0
Total	**30,791,689**	**10,141,689**	**950,000**	**13,133,333**	**6,566,667**

(c) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Corporation's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Foreign currency exchange rate risk and commodity price risk

The Corporation does not have any direct exposure to foreign currency exchange rate risk or commodity price risk. The Corporation had no forward exchange rate contracts or commodity price contracts in place as at or during the year ended December 31, 2009.

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, 2009, if interest rates had been 1% lower with all other variables held constant, net income for the period would have been $225,000 higher, due to lower interest expense. An equal and opposite impact would have occurred to net income had interest rates been 1% higher.

The Corporation had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2009.

9. Financial risk management (continued):

(d) Capital management:

Effective January 1, 2009, the Corporation adopted CICA section 1535 Capital Disclosures. Information regarding the enhanced disclosure is set out below.

The Corporation has entered into a series of agreements that resulted in the Corporation becoming a publicly owned company. As a result of the recent change in circumstances of the Corporation’s capital, management of the Corporation has not yet determined the long-term objectives or policies that will be applicable for capital management in future periods.

(e) Fair value of financial instruments:

The Corporation’s financial instruments as at December 31, 2009 and December 31, 2008 include cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, bank indebtedness and subordinated debt. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and approximate their carrying amounts due to their short-terms to maturity.

Bank indebtedness bears interest at a floating market rate and accordingly the fair market value approximates the carrying value. The subordinated debt is due to the Corporation’s largest shareholder and, accordingly, the fair value is not readily determinable. The fair values of the available for sale investments are not readily determinable with sufficient reliability due to the lack of similar instruments in the market.

The Corporation manages capital by monitoring certain debt covenants set out in its credit facility. The Corporation has a maximum senior debt to contracted EBITDA of 1.5:1 (1.28:1 at December 31, 2009). EBITDA is defined as net income before interest expense, income taxes, depreciation and amortization. Additionally, a minimum tangible net worth requirement of $104,950,000 is in place ($115.7 million at December 31, 2009). Tangible net worth is defined as subordinated debt plus shareholders equity. In order to acquire more royalties, the Corporation needs to access public equity markets to fund the acquisitions and manage the business within the bank covenants. The Corporation was in compliance with all debt covenants at December 31, 2009.

10. Income taxes

Income tax expense is calculated by using the combined federal and provincial statutory income tax rates. Prior to the restructuring on July 31, 2008, the entity was structured as a 100% flow-through entity and taxes were payable only by the unitholders. The provision for income tax differs from that which would be expected by applying statutory rates. A reconciliation of the difference is as follows:

	Year December 31, 2009	Year ended December 31, 2008
Earnings (loss) before income taxes	$11,601,281	$ (1,355,263)
Combined federal and provincial statutory income tax rate	29.00%	29.50%
Expected income tax provision	$ 3,364,371	$ (399,803)
Impact of restructuring	-	1,474,243
Non-deductible expense (recoveries)	498,997	2,435,543
Increase (decrease) in valuation allowance	(4,963,992)	1,874,253
Loss carryforwards expired	2,780,171	
Drawdown of deferred credit	(3,836,895)	(3,065,037)
Income allocated to former partners	-	(638,970)
Net impact of investment tax credits	(3,407,676)	-
Rate changes and other	(338,487)	16,447
	$(5,903,511)	$ 1,696,676

The valuation allowance was decreased as a result of the extension of expiry dates for investment tax credits in 2009.

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

	Year ended December 31 2009	Year ended December 31, 2008
Future income tax assets (liabilities):		
Non-capital losses and unclaimed scientific research and development expenses ("SRED")	$27,040,431	$33,114,722
Equipment	93,943	84,893
Share issue costs	962,065	1,027,439
Intangible assets	(1,489,600)	(1,532,908)
Investment tax credits	(2,757,502)	(1,731,905)
	23,849,337	30,962,241
Valuation allowance	-	(4,963,992)
	$23,849,337	$25,998,249

10. Income Taxes (continued):

The future income taxes as presented on the balance sheet are comprised of:

	Year ended December 31, 2009	Year ended December 31, 2008
Current assets	$ 2,996,000	$ 3,649,476
Long-term assets	22,248,900	25,528,693
Current liabilities	(47,808)	(42,932)
Long-term liabilities	(1,347,755)	(3,136,988)
	$ 23,849,337	$ 25,998,249

As at December 31, 2009, the Corporation has non-capital losses available to reduce income tax in future years that expire from time to time as follows:

2012	$ 24,024,448
2013	21,537,689
2024 and later	3,381,931
	$ 48,944,068

As at December 31, 2009, the Corporation has unused federal income tax credits which expire from time to time as follows:

2015	$ 50,210
2016	57,344
2017	133,712
2018	150,798
2019	1,623,342
2020	1,935,046
2021	1,295,097
2022	3,296,237
2023	1,840,597
2024	647,624
	$ 11,030,007

10. Income Taxes (continued):

As at December 31, 2009, the Corporation has a deferred credit of $23,661,017:

Opening deferred credit	$ 30,562,949
Drawdown in prior years	(3,065,037)
Drawdown in current period	(3,836,895)
	$ 23,661,017

The Corporation has research and development expenditures not deducted at the end of the year, to be deducted over an indefinite period for an amount of $58,131,473.

11. Recent accounting pronouncements not yet adopted or adopted in 2009:

New pending adoption:

The CICA's Accounting Standards Board confirmed the changeover from Canadian GAAP to IFRS (International Financial Reporting Standards) will be required for publicly accountable enterprises beginning on January 1, 2011. The Corporation has developed an implementation plan that includes a preliminary GAAP assessment, detailed quantification of the differences between Canadian GAAP and IFRS, the preparation of an opening balance sheet under IFRS for January 1, 2010 and a transition plan for elections under IFRS 1. The Corporation has begun to evaluate the impact of adoption and while the process is not complete, we have identified the following differences: the Preferred LP units will be required to be re-valued to fair value at each balance sheet date, and there will be changes to the fair value calculations for non-cash stock-based compensation expenses including expanded disclosure.

The new standards for business combinations, consolidated financial statements and non-controlling interests are not expected to have a material impact on the Corporation's financial statements.

Adopted:

The matters raised in EIC 173 requiring the Corporation to consider its credit risk and counterparty credit risk in establishing fair value of financial assets and liabilities are not expected to have a material impact on the Corporation's financial statements.

Financial instruments – disclosure, amends previously issued guidance to include additional disclosure requirements about fair value measurements of financial instruments and liquidity risk. These additional disclosures are included in our annual financial statements.

12. Related party transactions:

The Corporation has a $6.5 million demand loan with a company owned by its largest shareholder. For the year ended December 31, 2009, the Corporation paid interest of $845,000 to this company (Year ended December 31, 2008 - $7,162,646).

On July 31, 2008 the Corporation completed the Acquisition of the Partnership. In connection with the Acquisition the Corporation issued 3,111,111 Common Shares and paid $51,500,000 in cash to entities owned or controlled by a director, and the largest shareholder, of the Corporation, in exchange for $83,500,000 of the Partnership's subordinated debt and 750,000 units of the Partnership. In addition, the Corporation issued 666,668 Non-Voting Shares to the management of the Corporation, in exchange for the 666,667 shares of Alaris GP, the general partner of the Partnership, held by them.

13. Commitments:

On March 25, 2009, the Corporation signed a seven-year lease at a new location that was to commence July 1, 2009 ending June 30, 2016. The commencement date was delayed until after December 1, 2009.

2010	$	128,320
2011		128,320
2012		128,855
2013		134,736
2014		134,736
2015		134,736
2016		123,508
	$	913,211

14. Subsequent event:

Subsequent to December 31, 2009, shareholders exercised 157,900 warrants resulting in the issuance of 157,900 voting common shares at $7.50 per share for total proceeds of $1,184,250.