Consolidated Financial Statements of

# ALARIS ROYALTY CORP.

Audited statements for the years ended
December 31, 2008 and 2007

## AUDITORS' REPORT TO THE DIRECTORS

We have audited the consolidated balance sheets of Alaris Royalty Corp. (the “Entity”) as at December 31, 2008 and 2007 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, 2008 and 2007 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.

KPMG LLP

Chartered Accountants
Calgary, Canada
March 11, 2009

# ALARIS ROYALTY CORP.
Consolidated Balance Sheets

| | December 31, 2008 | 2007 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 1,743,936 | $ 1,599,339 |
| Accounts receivable | 11,307 | 20,207 |
| Prepaid expenses | 35,417 | – |
| Future income taxes (note 10) | 3,649,476 | – |
| Investment tax credit receivable (note 10) | 150,798 | – |
| | 5,590,934 | 1,619,546 |
| Investment tax credit receivable (note 10) | 6,441,259 | – |
| Future income taxes (note 10) | 25,528,693 | – |
| Equipment (note 4) | 90,458 | 141,883 |
| Investments (note 3) | | |
| Preferred LP units | 98,124,642 | 98,124,642 |
| Intangible assets | 13,243,384 | 13,416,616 |
| | 111,368,026 | 111,541,258 |
| | $ 149,019,370 | $ 113,302,687 |
| **Liabilities and Shareholders' Equity/(Deficit)** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 443,553 | $ 695,526 |
| Dividends payable | 1,094,620 | – |
| Future income taxes (note 10) | 42,932 | – |
| Bank indebtedness (note 5) | – | 25,000,000 |
| Subordinated debt (note 5) | 6,500,000 | 90,000,000 |
| | 8,081,105 | 115,695,526 |
| Bank indebtedness (note 5) | 25,000,000 | – |
| Future income taxes (note 10) | 3,136,988 | – |
| Deferred credit (note 10) | 27,497,912 | – |
| Shareholders' equity/(deficit): | | |
| Shareholder's capital (note 6) | 98,278,747 | 150,000 |
| Contributed surplus | 264,472 | – |
| Deficit | (13,239,854) | (2,542,839) |
| | 85,303,365 | (2,392,839) |
| Commitments (note 13) | | |
| Subsequent event (note 14) | | |
| | $ 149,019,370 | $ 113,302,687 |

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(signed) "*Mary Ritchie*" Director

(signed) "*Jack Lee*" Director

# ALARIS ROYALTY CORP.

Consolidated Statements of Operations and Deficit

| | Year ended December 31, 2008 | 2007 |
|---|---|---|
| Revenues: | | |
| Royalties and distributions | $18,934,364 | $ 11,368,381 |
| Interest and other | 96,380 | 18,091 |
| | 19,030,744 | 11,386,472 |
| Expenses: | | |
| Interest | 8,881,023 | 5,419,619 |
| Non-cash stock based compensation (Note 8) | 8,232,105 | – |
| Stock based compensation (Note 8) | 102,306 | – |
| Salaries and benefits | 994,676 | 766,050 |
| Legal and accounting fees | 664,922 | 523,572 |
| Corporate and office | 520,047 | 306,881 |
| Restructuring and financing (Note 1) | 491,032 | – |
| Financing | 265,000 | 2,102,500 |
| Depreciation and amortization | 234,896 | 238,416 |
| Write-off investments | – | 185,802 |
| | 20,386,007 | 9,542,840 |
| Net Income (Loss) before taxes | (1,355,263) | 1,843,642 |
| Future income tax expense (note 10) | 1,696,676 | – |
| Net Income (Loss) and other comprehensive income for the period | (3,051,939) | 1,843,642 |
| Deficit, beginning of period | (2,542,839) | (2,826,481) |
| Distributions to unitholders (note 7) | (2,166,000) | (1,560,000) |
| Dividends to shareholders (note 7) | (5,479,076) | – |
| Deficit, end of period | $ (13,239,854) | $ (2,542,839) |
| Earnings per share, basic | $ (0.65) | $ 1.23 |
| Earnings per share, fully diluted | $ (0.65) | $ 1.23 |
| Weighted average shares outstanding, basic | 4,691,024 | 1,500,000 |
| Weighted average shares outstanding, fully diluted | 4,691,024 | 1,500,000 |

See accompanying notes to consolidated financial statements.

# ALARIS ROYALTY CORP.

Consolidated Statements of Cash Flows

| | | Year ended December 31, | |
|---|---|---|---|
| | | 2008 | 2007 |
| Cash provided by (used in): | | | |
| Operations: | | | |
| Net Income (Loss) for the period | $ | (3,051,939) | $ 1,843,642 |
| Add non-cash items: | | | |
| Depreciation and amortization | | 234,896 | 238,416 |
| Write-off investments, deal costs | | – | 185,802 |
| Stock based compensation (note 8) | | 8,232,105 | – |
| Income tax expense | | 1,696,676 | – |
| | | 7,111,738 | 2,267,860 |
| Change in non-cash working capital | | (278,512) | (1,789,105) |
| | | 6,833,226 | 478,755 |
| Investing: | | | |
| Change in non-cash working capital | | – | (278,972) |
| Purchase of investments | | – | (51,156,995) |
| Disposals | | – | 8,893,100 |
| Purchase of equipment | | (10,239) | (2,682) |
| | | (10,239) | (42,545,549) |
| Financing: | | | |
| Distributions to unitholders | | (2,166,000) | (1,560,000) |
| Dividends to shareholders | | (4,384,456) | – |
| New share capital | | 51,730,998 | – |
| Proceeds from debt | | – | 131,850,000 |
| Repayment of debt | | (51,500,000) | (87,386,810) |
| Repurchase odd-lot shares | | (358,932) | – |
| | | (6,678,390) | 42,903,190 |
| Increase in cash | | 144,597 | 836,396 |
| Cash, beginning of period | | 1,599,339 | 762,943 |
| Cash, end of period | $ | 1,743,936 | $ 1,599,339 |

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 Class A 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 of the prior year and 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 L.P. 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 L.P. 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.

For the year ended December 31, 2008, the Corporation recorded restructuring and financing expenses of $491,032 consisting of legal and tax due diligence costs related to the Acquisition that were expensed in the period.

Alaris will continue 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) 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):**

(d) 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.

(e) 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).

## 2. Significant accounting policies (continued):

(f) Stock-based compensation:

The Corporation accounts for stock-based compensation in accordance with CICA Handbook section 3870 "Stock-Based Compensation and Other Stock-Based Payments". This standard requires that 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.

(g) 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 valuation of investments and collectability of future royalties and distributions.

## 3. Investments:

| December 31, 2008 | Acquisition Cost | Capitalized Costs | Accumulated Amortization | Net Cost |
|---|---|---|---|---|
| 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 |

| December 31, 2007 | | | | |
|---|---|---|---|---|
| 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 | (250,036) | 7,024,884 |
| MEDIchair | 6,500,000 | 83,758 | (192,026) | 6,391,732 |
| Total Intangible Assets | 13,700,000 | 158,678 | (442,062) | 13,416,616 |
| | $ 111,200,000 | $ 783,320 | $ (442,062) | $ 111,541,258 |

## 3. Investments (continued):

Royalties and distributions:

| | Year ended December 31, 2008 | 2007 |
|---|---|---|
| Lifemark Health | $ 7,465,464 | $ 7,250,066 |
| Lower Mainland Steel | 8,904,210 | 1,276,576 |
| End of the Roll | 1,434,137 | 1,355,426 |
| MEDIchair | 1,130,553 | 1,062,147 |
| Palliser Lumber | – | 424,166 |
| | $18,934,364 | $ 11,368,381 |

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 4,000,000 class B preferred partnership units ("LifeMark B Units") in LifeMark Health (the "LifeMark Investment"). The 900,000 LifeMark A Units and 2,600,000 of the LifeMark B Units were acquired on December 30, 2004 for an aggregate acquisition cost of $35 million. Alaris acquired 150,000 of the LifeMark B Units from LifeMark Health on June 15, 2005 for an aggregate acquisition cost of $1.5 million; acquired 250,000 of the LifeMark B Units from LifeMark Health on October 1, 2005 for an aggregate acquisition cost of $2.5 million; and acquired 750,000 of the LifeMark B units from LifeMark Health on August 1, 2006 for an aggregate acquisition cost of $7.5 million.

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.

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.

**3. Investments (continued):**

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 an aggregate price equal to the total distributions for the then current fiscal year multiplied by the then current trading multiple of Alaris Royalty Corp. subject to a minimum of the aggregate purchase price of the Units (the "Repurchase Right").

(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. Commencing December 21, 2007 the Corporation was entitled to a base preferred distribution of $8.5 million over the next twelve months. 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. The first portion was originally $2.5 million and was increased to $3.04 million effective April 1, 2008. The second portion was originally $6 million and will be adjusted effective January 1, 2009 once LMS’ audited financial statements have been completed. 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 price equal to 8.5 times the then current annual distributions subject to a minimum of the aggregate purchase price of the LMS Units (the "Repurchase Right").

**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, proprietary system for operating franchises and all goodwill associated with its business. 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 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 an aggregate price equal to the total royalty for the then current fiscal year multiplied by the then current trading multiple of Alaris Royalty Corp. subject to a minimum of the amount invested into End of the Roll (the "Repurchase Right").

(c) Investment in End of the Roll Carpet and Vinyl ("End of the Roll") (continued):

If a Material Breach (as defined in the License Agreement) occurs under the ER License Agreement, End of the Roll is required to pay to the Corporation the present value (calculated using a discount rate of 5.10% per annum) of the initial Royalty for 10 years from the date of the Material Breach together with any outstanding Royalty Payments and the Corporation may elect to terminate the ER License Agreement.

**3. Investments (continued):**

(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, proprietary system for operating franchises and all goodwill associated with its business. 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%.

If a Material Breach (as defined in the MEDIchair License Agreement) occurs under the License Agreement, MEDIchair is required to pay to the Corporation the present value (calculated using a discount rate of 5.5% per annum) of the then current Royalty for 10 years from the date of the Material Breach together with any outstanding Royalty Payments and the Corporation may, terminate the License Agreement.

MEDIchair has the option at any time after October 1, 2010 to repurchase the MEDIchair IP (and terminate the Royalty) at an aggregate price equal to the total royalty for the then current fiscal year multiplied by the then current trading multiple of Alaris Royalty Corp. subject to a minimum of the amount invested into MEDIchair (the "Repurchase Right").

(e) Investment in Palliser Lumber Sales Ltd. (“Palliser Lumber”):

On April 12, 2007, the Corporation sold its investment in Palliser at its net book value to a company controlled by its largest unitholder.

**4. Equipment:**

Equipment consists of leasehold improvements, furniture and fixtures, and computer equipment. The amounts are net of accumulated depreciation of $279,927 (December 31, 2007 - $218,263).

## 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% (6.50% at December 31, 2008). The term out date under the credit facility is December 18, 2009. If an extension is not received by December 20, 2009, the facility will be repaid in thirty-six equal monthly installments commencing January 20, 2010, therefore, none of the debt is shown as a current liability in the financial statements. There are financial covenants under this facility. The Corporation is in compliance with each of the covenants based on a letter received by the Corporation subsequent to December 31, 2008 from the lending syndicate clarifying the exclusion of certain non-cash and extraordinary amounts in the calculation of the covenants. Bank fees of $327,500 were paid in the year ended December 31, 2008 (2007 - $437,500) as a result of the restructuring described in note 1 and the renewal of the facility in December 2008.

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, 8,455,169 voting and 666,668 non-voting common shares.

| Issued Common Shares | Number of Shares | Amount |
|---|---|---|
| Balance at December 31, 2007 | 1,500,010 | $ 150,000 |
| Exercise of options to purchase 50% of existing units | – | 8,000,000 |
| Repurchase and cancellation of Partnership shares (note 1) | (1,500,010) | – |
| Issued to former Corporation shareholders (note 1) | 541,675 | 6,500,000 |
| Issued by private placement | 4,607,213 | 55,286,556 |
| Private placement costs | – | (3,622,225) |
| Income tax benefit of private placement costs | – | 289,070 |
| Issued in exchange for repayment of debt | 2,666,667 | 32,000,000 |
| Issued for purchase of units (note 1) | 666,667 | – |
| Transfer from units of Partnership to non-voting shares of the Corporation | – | (8,000,000) |
| Repurchase odd-lot shares | (29,911) | (358,932) |
| Issued in lieu of dividends on restricted share units | 2,858 | 34,278 |
| Voting shares | 8,455,169 | 90,278,747 |
| Non-voting shares | 666,668 | 8,000,000 |
| | 9,121,837 | $ 98,278,747 |

**7. Dividends and Distributions:**

For each month from August through December 2008, the Corporation had declared a dividend of $0.12 per voting and non-voting common share ($5,479,076 in aggregate).

Prior to the reorganization and for the year ended December 31, 2008, the Partnership paid distributions to unitholders of $1.44 per unit, $2,166,000 in aggregate (2007 - $1.04 per unit, $1,560,000 in aggregate).

**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 379,400 RSUs to management and Directors on October 29, 2008. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (285,650) 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 a $12 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, 2008, the Corporation incurred stock-based compensation expenses of $8,334,411 which includes: $7,933,350 (non-cash expense) for the difference in the exercise price and fair value of management options that were granted and exercised into shares of Alaris GP prior to the Acquisition; $252,933 (non-cash expense) for the 2008 portion of the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan; $85,167 for payments to staff and directors in lieu of dividends under the RSU Plan; $51,417 (non-cash expense) for shares issued in lieu of dividends under the RSU Plan; and $11,544 (non-cash expense) for the 2008 amortization of the fair value of outstanding stock options. The Corporation has reserved 253,569 and issued 224,150 options that vest over a four-year period and expire in five years.

| | |
|---|---|
| Dividend yield | 12% |
| Expected volatility | 38% |
| Risk free rate of return | 2.73% |
| Expected option life | 5 years |
| Weighted average value per option | $ 1.24 |

**9. Financial risk management**

Effective January 1, 2008, 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 portfolio 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, 2008, all amounts receivable for the year ended December 31, 2008 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, 2008 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, 2008.

**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.

(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, 2008.

*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, 2008, if interest rates had been 1% lower with all other variables held constant, net income for the period would have been $250,000 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, 2008.

(d) Capital management:

Effective January 1, 2008, 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.

**9. Financial risk management (continued):**

(e) Fair value of financial instruments:

The Corporation's financial instruments as at December 31, 2008 and December 31, 2007 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.

**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:

| | 2008 |
|---|---|
| Earnings (loss) before income taxes | (1,355,263) |
| Combined federal and provincial statutory income tax rate | 29.50% |
| Expected income tax provision | (399,803) |
| Impact of restructuring | 1,474,243 |
| Non-deductible expense (recoveries) | 2,435,543 |
| Increase in valuation allowance | 1,874,253 |
| Drawdown of deferred credit | (3,065,037) |
| Income allocated to former partners | (638,970) |
| Rate changes and other | 16,447 |
| | $ 1,696,676 |

**10. Income Taxes (continued):**

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

| | 2008 |
|---|---|
| Future income tax assets (liabilities): | |
| Non-capital losses and unclaimed scientific research and development expenses ("SRED") | $ 33,114,722 |
| Equipment | 84,893 |
| Share issue costs | 1,027,439 |
| Intangible assets | (1,532,908) |
| Investment tax credits | (1,731,905) |
| | 30,962,241 |
| Valuation allowance | (4,963,992) |
| | $ 25,998,249 |

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

| | 2008 |
|---|---|
| Current assets | $ 3,649,476 |
| Long-term assets | 25,528,693 |
| Current liabilities | (42,932) |
| Long-term liabilities | (3,136,988) |
| | $ 25,998,249 |

As at December 31, 2008, the Corporation has non-capital losses available to reduce income tax in future years that expire from time to time as follows:

| | |
|---|---|
| 2009 | $ 15,372,621 |
| 2013 | 31,014,281 |
| 2014 | 21,537,689 |
| 2025 and later | 3,381,931 |
| | $ 71,306,522 |

As at December 31, 2008, the Corporation has unused federal income tax credits which expire from time to time as follows (based on future earnings estimates, a portion of the tax credits will not be recognized):

| | |
|---|---|
| 2009 | $ 150,798 |
| 2010 | 1,623,342 |
| 2011 | 1,935,046 |
| 2012 | 1,295,097 |
| 2013 | 3,296,237 |
| 2014 | 1,840,597 |
| 2025 | 647,624 |
| Less tax credits not recognized | (4,196,684) |
| | 6,592,057 |
| Less current portion | (150,798) |
| | $ 6,441,259 |

As at December 31, 2008, the Corporation has a deferred credit of $27,497,912:

| | |
|---|---|
| Opening deferred credit | $ 30,562,949 |
| Drawdown of deferred credit | (3,065,037) |
| | $ 27,497,912 |

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:

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 impact on the Corporation is currently being reviewed.

**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, 2008, the Corporation paid interest of $7,162,646 to this company (Year ended December 31, 2007 - $352,603).

On July 31, 2008 the Corporation completed the Acquisition of Alaris LP. 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 Alaris LP's subordinated debt and 750,000 units of Alaris LP. 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 Alaris LP, held by them.

**13. Commitments:**

The Corporation leases its office space under a five-year lease that commenced on July 1, 2004 ending June 30, 2009. The lease payments over the remaining life of the lease are $45,174.

**14. Subsequent event:**

On January 23, 2009, the Corporation signed a conditional offer to lease new office space and on March 4, 2009, the offer to lease was amended and all conditions were waived. The Corporation expects to execute the lease on or before March 25, 2009. The lease is for seven years and the annual payments will be approximately $135,000.