Consolidated Financial Statements of

# ALARIS ROYALTY CORP.

Audited financial statements for the years ended
December 31, 2015 and 2014

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alaris Royalty Corp.

We have audited the accompanying consolidated financial statements of Alaris Royalty Corp., which comprise the consolidated statement of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alaris Royalty Corp. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 8, 2016
Calgary, Canada

## Alaris Royalty Corp.

Consolidated statement of financial position

| | Note | December 31 2015 | December 31 2014 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | $20,990,702 | $13,483,524 |
| Prepayments | | 2,434,451 | 200,495 |
| Income tax receivable | 6 | 3,528,509 | 1,866,572 |
| Trade and other receivables | | 10,577,985 | 5,551,730 |
| Investment tax credit receivable | 6 | 3,796,888 | - |
| Promissory note receivable | 5 | 11,750,000 | 8,965,000 |
| **Current Assets** | | 53,078,535 | 30,067,321 |
| Promissory note receivable | 5 | 7,234,945 | 3,500,000 |
| Deposits | 12 | 11,981,345 | 1,267,377 |
| Equipment | 7 | 791,942 | 109,565 |
| Intangible assets | 5 | 6,297,392 | 6,388,328 |
| Investments at fair value | 5 | 704,109,367 | 527,641,735 |
| Investment tax credit receivable | 6 | 4,716,919 | 10,922,393 |
| **Non-current assets** | | 735,131,910 | 549,829,398 |
| **Total Assets** | | $788,210,445 | $579,896,719 |
| | | | |
| **Liabilities** | | | |
| Accounts payable and accrued liabilities | | $2,138,132 | $1,453,661 |
| Dividends payable | 8 | 4,900,869 | 4,009,045 |
| Foreign exchange contracts | 4 | 5,345,488 | 1,541,630 |
| Income tax payable | 6 | 1,841,634 | - |
| **Current Liabilities** | | 14,226,123 | 7,004,336 |
| Deferred income taxes | 6 | 19,490,794 | 7,712,668 |
| Loans and borrowings | 9 | 77,447,075 | 35,500,000 |
| **Non-current liabilities** | | 96,937,869 | 43,212,668 |
| **Total Liabilities** | | $111,163,992 | $50,217,004 |
| | | | |
| **Equity** | | | |
| Share capital | 8 | $617,626,773 | $498,363,066 |
| Equity reserve | | 7,525,767 | 8,858,711 |
| Fair value reserve | | 1,874,903 | (2,637,352) |
| Translation reserve | | 27,651,191 | 7,071,417 |
| Retained earnings | | 22,367,819 | 18,023,873 |
| **Total Equity** | | $677,046,453 | $529,679,715 |
| | | | |
| **Total Liabilities and Equity** | | $788,210,445 | $579,896,719 |
| | | | |
| Commitments & contingencies | 12 | | |
| Subsequent events | 13 | | |

On behalf of the Board:

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

## Alaris Royalty Corp.

Consolidated statement of comprehensive income

**For the years ended December 31**

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Revenues** | | | |
| Royalties and distributions | 5 | $81,894,788 | $68,170,968 |
| Interest and other | 5 | 951,683 | 1,134,918 |
| Gain on reduction of partnership interest | 5 | 2,792,457 | - |
| Loss on disposal of partnerships | | - | (860,337) |
| Realized loss on foreign exchange contracts | 4 | (4,155,100) | (927,614) |
| Unrealized loss on foreign exchange contracts | 4 | (3,803,858) | (842,772) |
| **Total Revenue** | | 77,679,970 | 66,675,163 |
| | | | |
| Salaries and benefits | 11 | 2,822,459 | 3,621,464 |
| Corporate and office | | 2,849,447 | 1,947,484 |
| Legal and accounting fees | | 2,262,792 | 2,219,063 |
| Non-cash stock-based compensation | 10,11 | 3,535,268 | 4,143,549 |
| Bad debts | 5 | 3,570,277 | 500,000 |
| Permanent impairment of units | 5c | 20,460,000 | - |
| Depreciation and amortization | 7 | 203,170 | 110,536 |
| **Subtotal** | | 35,703,413 | 12,542,096 |
| **Earnings from operations** | | 41,976,557 | 54,133,067 |
| Finance costs | | 3,205,244 | 2,759,380 |
| Unrealized foreign exchange loss/(gain) | | (33,405,320) | (8,476,913) |
| **Earnings before taxes** | | 72,176,633 | 59,850,600 |
| Deferred income tax expense | 6 | 12,052,333 | 11,901,005 |
| Current income tax expense | 6 | 2,262,824 | (1,099,516) |
| Total income tax expense | 6 | 14,315,157 | 10,801,489 |
| **Earnings** | | 57,861,476 | 49,049,111 |
| | | | |
| **Other comprehensive income** | | | |
| Net change in fair value of Preferred Units | 5 | 3,972,055 | 2,853,470 |
| Net change in fair value of Preferred Units reclassified to earnings | 5 | 2,667,543 | - |
| Tax impact of change in fair value | | (2,127,342) | (606,871) |
| Foreign currency translation differences | | 20,579,774 | 5,869,534 |
| **Other comprehensive income for the year, net of income tax** | | 25,092,030 | 8,116,133 |
| **Total comprehensive income for the year** | | $82,953,506 | $ 57,165,244 |
| | | | |
| **Earnings per share** | | | |
| Basic earnings per share | | $1.70 | $1.61 |
| Fully diluted earnings per share | | $1.68 | $1.58 |
| | | | |
| **Weighted average shares outstanding** | | | |
| Basic | | 33,960,479 | 30,446,449 |
| Fully Diluted | | 34,390,355 | 31,095,740 |

## Alaris Royalty Corp.

Consolidated statement of changes in equity

**For the year ended December 31, 2014**

| | Notes | Share Capital | Equity Reserve | Fair Value Reserve | Translation Reserve | Retained Earnings | Total Equity |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2014 | | $413,237,576 | $5,688,079 | $(4,883,951) | $1,201,883 | $14,515,589 | $429,759,176 |
| **Total comprehensive income for the year** | | | | | | | |
| **Earnings for the year** | | - | - | - | - | 49,049,111 | 49,049,111 |
| **Other comprehensive income** | | | | | | | |
| Net change in fair value of available-for-sale financial assets | 5 | - | - | 2,853,470 | - | - | 2,853,470 |
| Tax impact of change in fair value | | - | - | (606,871) | - | - | (606,871) |
| Realized gain on LifeMark redemption | | - | - | - | - | - | - |
| Tax impact on realized gain | | - | - | - | - | - | - |
| Tax impact of change in fair value | | - | - | - | - | - | - |
| Foreign currency translation differences | | - | - | - | 5,869,534 | - | 5,869,534 |
| **Total other comprehensive income** | | - | - | 2,246,599 | 5,869,534 | - | 8,116,133 |
| **Total comprehensive income for the year** | | $- | $- | $2,246,599 | $5,869,534 | $49,049,111 | $57,165,244 |
| **Transactions with shareholders of the Company, recognized directly in equity** | | | | | | | |
| **Contributions by and distributions to shareholders of the Company** | | | | | | | |
| Non-cash stock based compensation | 10 | $- | $4,143,549 | $- | $- | $- | $4,143,549 |
| Dividends to shareholders | 8 | - | - | - | - | (45,279,198) | (45,279,198) |
| Options exercised in the period | 8 | 397,879 | (274,142) | - | - | - | 123,737 |
| Shares issued after Director RSU vesting | 8 | 698,775 | (698,775) | - | - | - | - |
| Payments in lieu of dividends on RSUs | 10 | - | - | - | - | (261,629) | (261,629) |
| Shares issued in the period | 8 | 87,417,135 | - | - | - | - | 87,417,135 |
| Share issue costs, net of tax | 8 | (3,388,299) | - | - | - | - | (3,388,299) |
| **Total transactions with Shareholders of the Company** | | 85,125,490 | 3,170,632 | - | - | (45,540,827) | 42,755,295 |
| Balance at December 31, 2014 | | $498,363,066 | $8,858,711 | $(2,637,352) | $7,071,417 | $18,023,873 | $529,679,715 |

## Alaris Royalty Corp.

Consolidated statement of changes in equity

**For the year ended December 31, 2015**

| | Notes | Share Capital | Equity Reserve | Fair Value Reserve | Translation Reserve | Retained Earnings | Total Equity |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2015 | | $498,363,066 | $8,858,711 | $(2,637,352) | $7,071,417 | $18,023,873 | $529,679,715 |
| **Total comprehensive income for the year** | | | | | | | |
| **Earnings for the year** | | - | - | - | - | 57,861,476 | 57,861,476 |
| **Other comprehensive income** | | | | | | | |
| Net change in fair value of Preferred Units | 5 | - | - | 3,972,055 | - | - | 3,972,055 |
| Net change in fair value of Preferred Units reclassified to earnings | | - | - | 2,667,543 | - | - | 2,667,543 |
| Tax impact of change in fair value | | - | - | (2,127,342) | - | - | (2,127,342) |
| Foreign currency translation differences | | - | - | - | 20,579,774 | - | 20,579,774 |
| **Total other comprehensive income** | | - | - | 4,512,256 | 20,579,774 | - | 25,092,029 |
| **Total comprehensive income for the year** | | $- | $- | $4,512,256 | $20,579,774 | $57,861,476 | $82,953,505 |
| **Transactions with shareholders of the Company, recognized directly in equity** | | | | | | | |
| **Contributions by and distributions to shareholders of the Company** | | | | | | | |
| Non-cash stock based compensation | 10 | - | 3,535,268 | - | | - | 3,535,268 |
| Dividends to shareholders | 8 | - | - | - | - | (53,517,530) | (53,517,530) |
| Options exercised in the period | 8 | 4,443,580 | (1,072,605) | - | - | - | 3,370,975 |
| Shares issued after RSU vesting | 8 | 3,795,607 | (3,795,607) | - | - | - | - |
| Shares issued in the period | 8 | 115,035,478 | - | - | - | - | 115,035,478 |
| Share issue costs, net of tax | 8 | (4,010,958) | - | - | - | - | (4,010,958) |
| **Total transactions with Shareholders of the Company** | | 119,263,707 | (1,332,944) | - | - | (53,517,530) | 64,413,233 |
| Balance at December 31, 2015 | | $617,626,773 | $7,525,767 | $1,874,904 | $27,651,191 | $22,367,819 | $676,046,453 |

## Alaris Royalty Corp.

Consolidated statement of cash flows

**For the years ended December 31**

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Earnings from the year | | $57,861,476 | $49,049,111 |
| Adjustments for: | | | |
| Finance costs | | 3,205,244 | 2,759,380 |
| Deferred income tax expense | 6 | 12,052,333 | 11,901,005 |
| Depreciation and amortization | 7 | 203,170 | 110,536 |
| Bad debts expense | 5 | 3,570,277 | 500,000 |
| Permanent impairment of units | | 20,460,000 | - |
| Loss on Quetico redemption | | - | 860,337 |
| Gain on reduction of partnership interest | | (2,792,457) | - |
| Unrealized loss on foreign exchange contracts | | 3,803,858 | 842,772 |
| Unrealized foreign exchange gain | | (33,405,320) | (8,476,913) |
| Non-cash stock-based compensation | 10 | 3,535,268 | 4,143,549 |
| | | 68,493,849 | 61,689,777 |
| Change in: | | | |
| -trade and other receivables | | (9,758,469) | (6,962,471) |
| -prepayments | | (2,233,956) | (1,342,329) |
| -trade and other payables | | 2,526,105 | (977,977) |
| **Cash generated from operating activities** | | 59,027,529 | 52,407,000 |
| Finance costs | | (3,205,244) | (2,759,380) |
| **Net cash from operating activities** | | $55,822,285 | $49,647,620 |
| | | | |
| **Cash flows from investing activities** | | | |
| Acquisition of equipment | 7 | (794,611) | (69,340) |
| Acquisition of Preferred LP Units | 5 | (178,150,381) | (107,763,746) |
| Proceeds from Partner redemptions, reduction of interest | | 44,300,000 | 30,386,240 |
| **Net cash used in investing activities** | | $(134,644,992) | $(77,446,846) |
| | | | |
| **Cash flows from financing activities** | | | |
| New share capital, net of share issue costs | 8 | 109,580,622 | 82,795,636 |
| Proceeds from exercise of options | 8 | 3,370,975 | 123,739 |
| Repayment of debt | 9 | (150,800,000) | (84,200,000) |
| Proceeds from debt | 9 | 192,747,075 | 75,200,000 |
| Promissory notes issued | 5 | (12,214,850) | (50,000) |
| Promissory notes repaid | 5 | 5,821,505 | 3,000,000 |
| Dividends paid | 8 | (52,625,706) | (44,713,396) |
| Deposits with CRA | | (10,713,968) | - |
| Payments in lieu of dividends on RSUs | | - | (261,630) |
| **Net cash used in financing activities** | | $85,165,653 | $31,894,349 |
| | | | |
| **Net increase in cash and cash equivalents** | | 6,342,946 | 4,095,123 |
| Impact of foreign exchange on cash balances | | 1,164,232 | 390,059 |
| Cash and cash equivalents, Beginning of year | | 13,483,524 | 8,998,342 |
| **Cash and cash equivalents, End of year** | | $20,990,702 | $13,483,524 |

## 1. Reporting entity:

Alaris Royalty Corporation (the “Company”) is a company domiciled in Calgary, Alberta, Canada. The consolidated financial statements of the Company as at and for the year ended December 31, 2015 comprise the Company and its subsidiaries (together referred to as the “Corporation”). The Corporation’s Canadian operations are conducted through a partnership. The Corporation’s United States operations are conducted through a Delaware Corporation formed on October 21, 2011. The Corporation’s operations consist primarily of investments in private operating entities, typically in the form of preferred limited partnership interests, preferred interest in limited liability corporations in the United States, or long-term license and royalty arrangements. The Corporation also has a wholly-owned subsidiary in the Netherlands.

## 2. Statement of compliance:

(a) Statement of compliance

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

These consolidated financial statements were approved by the Board of Directors on March 8, 2016.

(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 (Preferred LP units, Preferred LLC units and loan receivable) are measured at fair value with changes in fair value recorded in other comprehensive income
- Derivative financial instruments are measured at fair value

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars which is the Corporation’s functional currency. Alaris USA has 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. The Corporation has agreements with various partners and these agreements include not only clauses as to distributions but also various protective rights. The Corporation has assessed these rights under IFRS 10 and 11 and determined that consolidation is not required.

***Key assumptions used in discounted cash flow projections***

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

***Utilization of tax losses***

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

***Income taxes***

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

**3. Significant accounting policies:**

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

**(a) Basis of consolidation**

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

**(b) Revenue recognition**

The Corporation recognizes revenue from the distributions and royalties it receives from the private company partners as they become due under the partnership agreement, limited liability corporation agreement, or royalty agreement with each specific partner.

**(c) Financial instruments**

(i) Non-derivative financial assets

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

***Loans and receivables***

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

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

***Cash and cash equivalents***

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

***Available-for-sale financial assets***

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

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

After an exclusive letter of intent has been signed, 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.

(ii) Derivative financial instruments

The Corporation holds derivative financial instruments to hedge its foreign currency exposure. The Corporation has entered into forward contracts equal to the monthly and quarterly flow of funds from its investments in the United States. The Corporation matched approximately 100% of the 2016 scheduled distributions to the Canadian parent and between 50% and 75% of the expected 2017 distributions resulting in an economic hedge of the foreign currency exposure. The fair value of the forward contracts will be estimated at each reporting date and any gain or loss on the contracts will be recognized in profit or loss.

**(d) Share capital**

***Common shares***

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

**(e) Equipment**

***(i) Recognition and measurement***

Equipment is measured at cost less accumulated depreciation.

***(ii) Depreciation***

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

**(f) Intangible assets**

***(i) Intangible assets***

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

***(ii) Amortization***

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

**(g) Impairment**

(i) Non-derivative financial assets

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

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

(ii) Available-for-sale financial assets

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

**(h) Share based payment transactions**

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

**(i) Finance costs**

Finance costs comprise interest expense on borrowings and credit facility renewal fees. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset are recognized in profit or loss using the effective interest method.

**(j) Income tax**

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

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

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

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

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

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

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

**(k) Earnings per Share**

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

**(l) Foreign currency transactions**

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

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

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

**(m) Foreign operations**

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

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

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

**(n) New standards and interpretations not adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Corporation, except for IFRS 9, Financial Instruments, effective for fiscal years beginning on or after January 1, 2018, which could change the classification and measurement of financial assets. The Corporation does not plan to adopt this standard early and the extent of the impact has not yet been determined.

## 4. Financial risk management

**Overview**

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

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

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

**Risk Management Framework**

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

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

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

**Credit Risk and Other Price Risk**

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investments. Concentrations of credit risk exist when a significant proportion of the Corporation's assets are invested in a small number of individually significant investments, and investments with similar characteristics and/or subject to similar economic, political and other conditions that may prevail. The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Corporation's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. No single partner accounted for more than 20% of the Corporation's revenue in the year ended December 31, 2015. Trade receivables are due mostly from three partner companies with approximately half of the outstanding balance over 90 days. SMi is approximately 36% ($3.6 million) and includes unpaid distributions from July through December 2015 plus accrued interest on short term loans the full amount of which is expected to be paid in 2016. Kimco is approximately 32% ($3.2 million) and includes unpaid distributions from July through December 2015 which amounts are expected to be paid in 2016. Labstat is approximately 23% ($2.3 million) and includes the cash flow sweep for 2015 distributions that are expected to be paid prior to April 30, 2016. No allowance for doubtful accounts has been recorded at December 31, 2015 as the Corporation believes that all amounts recorded at December 31, 2015 will be realized.

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

The Corporation is exposed to credit related losses on current and future amounts receivable pursuant to investment agreements. In the event of non-performance by Partners, future royalty and distribution revenue from the investments could be reduced, resulting in impairment of investment values. The investment agreements 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 $20,990,702 at December 31, 2015 (December 31, 2014 - $13,483,524 which represents its maximum credit exposure on these assets).

The carrying amount of investments, trade and other receivables, promissory notes, and cash and cash equivalents represents the maximum credit exposure. The Corporation does not have an allowance for doubtful accounts as at December 31, 2015.

**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 $200 million, four year revolving credit facility, and has $77.5 million balance drawn at December 31, 2015 ($35.5 million at December 31, 2014). The Corporation has the following financial instruments that mature as follows:

| | Total | 0-6 mo | 6 mo-1 yr | 1-2 years | 3-4 years |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 2,138,132 | $ 2,138,132 | $ - | $ - | $ - |
| Dividends payable | 4,900,869 | 4,900,869 | - | - | - |
| Foreign exchange contracts | 5,345,488 | 3,139,449 | 1,240,243 | 965,796 | - |
| Income tax payable | 1,841,634 | 1,841,634 | - | - | - |
| Loans and borrowings | 77,447,075 | - | - | - | 77,447,075 |
| Total | $ 91,673,198 | $ 12,020,084 | $ 1,240,243 | $ 965,796 | $ 77,447,075 |

**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 purchased forward exchange rate contracts matching the expected distributions in US dollars throughout 2016 and also for between 50% to 75% of the expected distributions in 2017 (notional value of $46 million USD). 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, 2015, if the

US foreign exchange rate had been 1% lower with all other variables held constant, net income for the year would have been approximately $85,000 lower, due to lower net income from US operations. An equal and opposite impact would have occurred to net income had foreign exchange rates been 1% higher. Additionally, the Corporation has loans in US dollars (intercompany and one to Federal Resources) that are translated at each balance sheet date with an unrealized foreign exchange gain or loss recorded on the statement of comprehensive income. As at December 31, 2015, if the US foreign exchange rate had been 1% lower with all other variables held constant, net income for the year would have been approximately $2.5 million lower, due to a smaller unrealized gain in the period. An equal and opposite impact would have occurred to net income had foreign exchange rates been 1% higher. The Corporation had no commodity price risk for the year ended December 31, 2015.

**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, 2015, if interest rates had been 1% lower with all other variables held constant, net income for the year would have been approximately $399,500 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, 2015.

**Capital Management**

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

The Corporation manages capital by monitoring certain debt covenants set out in its credit facility. The Corporation has a maximum senior debt to contracted EBITDA of 1.5:1 (0.9:1 at December 31, 2015). Contracted EBITDA is defined as net income before interest expense, income taxes, depreciation and amortization and non-cash stock-based compensation expenses but 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. The Corporation has a fixed charge coverage ratio covenant of 1:1 (1.27:1 at December 31, 2015). Additionally, a minimum tangible net worth requirement of $450 million is in place (Actual: $670.7 million at December 31, 2015). 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, 2015. In order to acquire more distributions and royalties, the Corporation can access its credit facility and above that needs to access public equity markets to fund the acquisitions and manage the business within the bank covenants. There were no changes in the Corporation's approach to capital management during the year ended December 31, 2015.

**Fair Value of Financial Instruments**

The Corporation's financial instruments as at December 31, 2015 and December 31, 2014 include cash and cash equivalents, trade and other receivables, promissory note receivable, investments at fair value, foreign exchange forward contracts, accounts payable and accrued liabilities, and loans and borrowings. The fair value of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity. Loans and borrowings bear interest at a floating market rate and accordingly the fair market value approximates the carrying value. The fair values of the investments at fair value are estimated using an approach described in note 5.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following items shown on the consolidated statement of financial position as at December 31, 2015 and 2014, are measured at fair value on a recurring basis. 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. While there were no transfers in and out of level 3 during the year, the Corporation previously reported its investments as level 2. As there has been no change in the methodology of determining fair value of the investments, the Corporation has retrospectively adjusted the comparative disclosures to show the amounts as though they were level 3 at December 31, 2014.

| **December 31, 2015** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Foreign exchange contracts | - | (5,345,488) | - | (5,345,488) |
| Preferred LP and LLC units | - | - | 704,109,367 | 704,109,367 |
| | $ - | $ (5,345,488) | $ 704,109,367 | $ 698,763,879 |
| **December 31, 2014** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Foreign exchange contracts | - | (1,541,630) | - | (1,541,630) |
| Preferred LP and LLC units | - | - | 527,641,735 | 527,641,735 |
| | $ - | $ (1,541,630) | $ 527,641,735 | $ 526,100,105 |

## 5. Investments

**Investments at fair value:**

| December 31, 2015 | | Acquisition Cost | | Capitalized Cost | | Net Cost | | Fair Value |
|---|---|---|---|---|---|---|---|---|
| LifeMark Health | $ | 19,502,159 | $ | 499,894 | $ | 20,002,053 | $ | 38,467,202 |
| LMS | | 54,228,822 | | 333,280 | | 54,562,102 | | 33,028,822 |
| Solowave | | 42,500,000 | | 511,253 | | 43,011,253 | | 50,474,000 |
| KMH | | 54,800,000 | | 589,147 | | 55,389,147 | | 35,001,153 |
| Labstat | | 47,200,000 | | 518,944 | | 47,718,944 | | 46,998,944 |
| Agility Health | | 27,870,660 | | 863,121 | | 28,733,781 | | 27,724,336 |
| SCR | | 40,000,000 | | 487,339 | | 40,487,339 | | 32,988,339 |
| Sequel | | 101,915,100 | | 791,701 | | 102,706,801 | | 108,903,516 |
| SMi | | 40,500,000 | | 717,310 | | 41,217,310 | | 42,617,310 |
| Kimco | | 44,648,520 | | 1,341,585 | | 45,990,105 | | 45,352,269 |
| Planet Fitness | | 55,464,000 | | 869,829 | | 56,333,829 | | 58,275,071 |
| DNT | | 97,062,000 | | 780,566 | | 97,842,566 | | 97,842,566 |
| Federal Resources | | 9,706,200 | | 1,567,062 | | 11,273,262 | | 11,273,262 |
| MAHC | | 18,407,116 | | 1,114,882 | | 19,521,998 | | 19,521,998 |
| Capitalized costs | | - | | 176,579 | | 176,579 | | 176,579 |
| Total LP and LLC Units | | 653,804,577 | | 11,162,492 | | 664,967,069 | | 648,645,367 |
| FR Loan Receivable | | 55,464,000 | | - | | 55,464,000 | | 55,464,000 |
| Total Investments | $ | 709,268,577 | $ | 11,162,492 | $ | 720,431,069 | $ | 704,109,367 |
| **December 31, 2014** | | **Acquisition Cost** | | **Capitalized Cost** | | **Net Cost** | | **Fair Value** |
| LifeMark Health | $ | 19,502,159 | $ | 499,894 | $ | 20,002,053 | $ | 36,920,000 |
| LMS | | 54,228,822 | | 333,280 | | 54,562,102 | | 33,028,822 |
| Solowave | | 42,500,000 | | 511,253 | | 43,011,253 | | 44,000,000 |
| KMH | | 54,800,000 | | 589,147 | | 55,389,147 | | 52,001,153 |
| Killick | | 41,250,000 | | 257,544 | | 41,507,544 | | 44,300,000 |
| Labstat | | 47,200,000 | | 518,944 | | 47,718,944 | | 46,998,944 |
| Agility Health | | 23,358,210 | | 723,376 | | 24,081,586 | | 24,081,586 |
| SCR | | 40,000,000 | | 487,339 | | 40,487,339 | | 40,487,339 |
| Sequel | | 85,414,350 | | 663,519 | | 86,077,869 | | 86,888,776 |
| SMi | | 40,500,000 | | 717,310 | | 41,217,310 | | 42,617,310 |
| Kimco | | 33,933,320 | | 970,317 | | 34,903,637 | | 34,903,637 |
| Planet Fitness | | 40,673,500 | | 713,855 | | 41,387,355 | | 41,387,355 |
| Capitalized costs | | - | | 26,813 | | 26,813 | | 26,813 |
| | $ | 523,360,361 | $ | 7,012,591 | $ | 530,372,952 | $ | 527,641,735 |

The difference in the acquisition cost of Agility and Sequel, at December 31, 2015 and December 31, 2014 is due to foreign currency translation. The difference in the acquisition cost of Kimco and Planet Fitness for the same period is due to foreign currency translation as well as follow on contributions.

Assumptions used in fair value calculations:

The Corporation recognizes that the determination of fair value of its investments 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 available for sale financial assets (Investments at fair value) by evaluating a number of different methods:

(a) A going concern value was calculated by calculating the discounted cash flow of the future expected distributions. Key assumptions used include the discount rate used in the calculation 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 13.25% - 19.50%. All of the investments except as noted below were valued on this basis at December 31, 2015.

(b) A redemption or retraction value is used when the partner company has indicated to the Corporation that they intend to repurchase the preferred position and was calculated using the formula specified in each of the Partnership agreements alongside an assessment of the likelihood of a redemption of the Preferred Units. The Corporation's investment in LifeMark was valued on this basis at December 31, 2015.

(c) 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. The liquidation value is 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). The Corporation's investment in KMH was valued on this basis at December 31, 2015.

From this analysis, management of the Corporation determined the fair value of the Preferred Units and Loan Receivable for each individual Partner and below is a summary of the fair value adjustments in 2015 and 2014.

| | Opening Fair Value | Additions | Disposals | Foreign Exchange Adjustment | Fair Value Adjustment | Closing Fair Value |
|---|---|---|---|---|---|---|
| **2015** | | | | | | |
| LifeMark Health | $ 36,920,000 | $ 70,202 | $- | $- | $1,477,000 | $ 38,467,202 |
| LMS | 33,028,822 | - | - | - | - | 33,028,822 |
| Solowave | 44,000,000 | - | - | - | 6,474,000 | 50,474,000 |
| KMH | 52,001,153 | - | - | - | (17,000,000) | 35,001,153 |
| Killick | 44,300,000 | - | (44,300,000) | - | - | - |
| Labstat | 46,998,944 | - | - | - | - | 46,998,944 |
| Agility Health | 24,081,586 | - | - | 4,652,195 | (1,009,445) | 27,724,336 |
| SCR | 40,487,339 | - | - | - | (7,499,000) | 32,988,339 |
| Sequel | 86,888,776 | - | - | 16,788,644 | 5,226,095 | 108,903,516 |
| SMi | 42,617,310 | - | - | - | - | 42,617,310 |
| Kimco | 34,903,637 | 4,341,738 | - | 6,744,731 | (637,836) | 45,352,269 |
| Planet Fitness | 41,387,355 | 6,316,419 | - | 8,630,056 | 1,941,240 | 58,275,071 |
| DNT | - | 87,836,804 | - | 10,005,762 | - | 97,842,566 |
| Federal Resources[1] | - | 59,782,456 | - | 6,954,806 | - | 66,737,262 |
| MAHC | - | 19,626,183 | - | (104,185) | - | 19,521,998 |
| Capitalized costs | 26,813 | 176,579 | (26,813) | - | - | 176,579 |
| | $527,641,735 | $178,150,381 | ($44,326,813) | $53,672,009 | ($11,027,946) | $704,109,367 |
| **2014** | | | | | | |
| LifeMark Health | $ 35,500,000 | $ - | $- | $- | $ 1,420,000 | $ 36,920,000 |
| LMS | 32,528,822 | - | - | - | 500,000 | 33,028,822 |
| Solowave | 32,600,000 | 10,000,000 | - | - | 1,400,000 | 44,000,000 |
| KMH | 55,431,198 | 29,955 | - | - | (3,460,000) | 52,001,153 |
| Killick | 44,800,000 | - | - | - | (500,000) | 44,300,000 |
| Quetico | 29,436,207 | - | (29,436,207) | - | - | - |
| Labstat | 39,718,944 | 6,000,000 | - | - | 1,280,000 | 46,998,944 |
| Agility Health | 22,064,514 | - | - | 2,017,072 | - | 24,081,586 |
| SCR | 40,486,389 | 950 | - | - | - | 40,487,339 |
| Sequel | 70,704,911 | 8,198,595 | - | 7,171,800 | 813,470 | 86,888,776 |
| SMi | 30,717,310 | 10,500,000 | - | - | 1,400,000 | 42,617,310 |
| Kimco | - | 32,880,077 | - | 2,023,560 | - | 34,903,637 |
| Planet Fitness | - | 40,127,355 | - | 1,260,000 | - | 41,387,355 |
| Capitalized costs | - | 26,813 | - | - | - | 26,813 |
| | $433,988,295 | $107,763,745 | ($29,436,207) | $12,472,432 | $2,853,470 | $527,641,735 |

[1]Includes the loan receivable

**Intangible Assets:**

The Corporation holds intangible assets in End of the Roll, net of accumulated amortization of $977,528 (2014 - $886,592), of $6,297,392.

## 5. Investments (continued):

The Corporation recorded royalty and distribution revenue as follows:

| **Royalties and distributions:** | | **2015** | | **2014** |
|---|---|---|---|---|
| Sequel | $ | 14,796,018 | $ | 11,580,201 |
| DNT | | 8,016,872 | | - |
| Planet Fitness | | 7,207,379 | | 562,805 |
| SMi | | 6,703,413 | | 5,306,575 |
| Solowave | | 6,490,055 | | 5,002,716 |
| SCR | | 6,400,000 | | 6,400,000 |
| Kimco | | 6,007,416 | | 2,920,205 |
| Labstat | | 5,574,704 | | 5,843,000 |
| Federal Resources | | 4,653,448 | | - |
| LifeMark Health | | 4,197,498 | | 4,049,251 |
| LMS | | 4,167,532 | | 3,374,729 |
| Agility Health | | 4,075,610 | | 3,583,752 |
| KMH | | 1,890,000 | | 7,937,611 |
| End of the Roll | | 1,177,128 | | 1,142,960 |
| Killick | | 537,715 | | 6,805,339 |
| Quetico | | - | | 3,661,824 |
| | $ | 81,894,788 | $ | 68,170,968 |

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 terms of the various notes differ: the KMH note is a demand note and payment has been demanded though timing of collection is uncertain; the Labstat note (interest at 7%) is due July 2017; the SMI note is a demand note (interest at 8%) and is expected to be repaid in the next twelve months (SMI has the ability to borrow an additional $2.75 million under the loan agreement); and the SHS note is secured against certain assets of the SHS business and the Corporation expects to be repaid as a secured creditor out of the current receivership process. Subsequent to December 31, 2015, the Corporation received partial settlement on the SHS note of $312,500. The remainder is expected to be collected from proceeds remaining from the receivership. No interest is currently being accrued on the KMH and SHS notes. At December 31, 2015, the following is a summary of the outstanding promissory notes:

| **Partner** | | **2015** | | **2014** |
|---|---|---|---|---|
| **Current** | | | | |
| Labstat | $ | - | | 6,915,000 |
| SHS | | 1,500,000 | | 2,050,000 |
| SMi | | 10,250,000 | | - |
| Total Current | $ | 11,750,000 | $ | 8,965,000 |
| **Non-Current** | | | | |
| Labstat | | 3,734,945 | | - |
| KMH | | 3,500,000 | | 3,500,000 |
| Total Non-current | | 7,234,945 | | 3,500,000 |
| Total | | 18,984,945 | | 12,465,000 |

I – Preferred LP Units

(a) Investment in LifeMark Health Limited Partnership ("LifeMark Health"):
At December 31, 2015, the Corporation holds 6,750,000 preferred units and will receive an annual preferred distribution, in priority to distributions on LifeMark Health's other partnership units. The annual distribution has a guaranteed increase of 4% per year thereafter and distributions are receivable monthly. LifeMark Health is a subsidiary of Centric Health Corporation ("Centric").

The remainder of the units ($38.4 million) can be repurchased anytime with 30-days notice. The repurchase price will increase 4% per year on each June 9th.

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

The Corporation holds 542,288 preferred partnership units ("LMS Units") in Lower Mainland Steel (the "LMS Investment").

The LMS Units entitle the Corporation to receive an annual preferred distribution (the "Preferred Distribution") in priority to distributions on LMS' other partnership units. The distribution is adjusted annually based on the percentage increase or decrease in LMS' gross profit (as defined in the LMS Partnership Agreement) for the most recently completed fiscal year. Distributions on the LMS Units are receivable monthly.

Subsequent to December 31, 2015, the Corporation acquired preferred units in a US subsidiary of LMS for $4.75 million USD.

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

(c) Investment in KMH Limited Partnership ("KMH"):

The Corporation holds 548,000 preferred partnership units ("KMH Units") in KMH Limited Partnership (the "KMH Investment").

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

KMH ceased paying distributions to the Corporation in November 2014. KMH has been notified that it is in default of the partnership agreement and a repurchase of the preferred units has been demanded. KMH has been undergoing a strategic process in order to repurchase the units but the process has not been completed and the Corporation is doing everything possible to bring the process to a conclusion.

At December 31, 2015 there is approximately $0.8 million (December 31, 2014 - $2.4 million) in trade and other receivables and $3.5 million (December 31, 2014 - $3.5 million) in promissory notes owing from KMH, all of which are over 90 days outstanding. During 2015, the carrying value of the KMH investment was reduced to approximately $35 million (December 31, 2014 - $52 million). As the reduction in fair value is believed to be a permanent impairment of this investment, the current year reduction ($17 million) has been recorded in net income along with the previous period reductions ($3.46 million, $20.46 million in aggregate) that had been recognized directly in our fair value reserve. No revenue from KMH has been recognized since March 31, 2015. The on-going delay in paying the Alaris distribution resulted in KMH and Alaris evaluating strategic alternatives, which may result in the repurchase or restructuring of this investment. During 2015, $3.57 million of other receivables from KMH, representing distributions accrued prior to March 31, 2015, were written off.

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

The Corporation holds 4,250,000 preferred partnership units ("Solowave Units") in Solowave Design Limited Partnership (the "Solowave Investment") for an aggregate acquisition cost of $42.5 million.

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

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

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

At December 31, 2014, the Corporation held 4,125,000 preferred partnership units ("Killick Units") in Killick Aerospace Limited Partnership ("Killick") acquired for an aggregate acquisition cost of $41.25 million. On January 29, 2015, Killick repurchased those units for $44.3 million. At the time of redemption, a previously unrecognized pre-tax gain on the value of these partnership units of $2.79 million was transferred from the fair value reserve in equity to the statement of comprehensive income.

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

The Corporation holds 4,720,000 preferred partnership units ("Labstat Units") in Labstat International Limited Partnership (the "Labstat Investment") acquired for an aggregate acquisition cost of $47.2million.

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

In 2013, the Corporation agreed to restructure the form of its distributions for a two year period. Under the Labstat Partnership Agreement, the Corporation would have been entitled to $6.77 million in distributions in 2014. The Corporation agreed to a reduced fixed portion of the distribution of $3.42 million (7.25% of the original acquisition cost) with a variable portion in the form of a sweep of 75% of the excess cash flow of the business as long as certain senior lender covenants are met up to a maximum of $3.35 million. Due to a successful 2015 fiscal year for Labstat, the cash flow sweep along with the reduced fixed portion produced distributions of $5.57 million in 2015.

In June 2012, the Corporation provided a $1.25 million demand note (interest at 15.3% per annum) to temporarily bridge financing of the acquisition of the previous owners interest. During 2013, the Corporation provided $5.665 million in demand notes (interest at 7.0% per annum) to provide additional working capital. Labstat repaid a portion of the notes in 2015 and at December 31, 2015, $3.735 million remains outstanding.

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

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

The Corporation, through its wholly-owned subsidiary Alaris USA Inc., holds 1,810 Class B units and 200 Class C units (“Agility Units”) in Agility Health, LLC, an American corporation acquired for an aggregate acquisition cost of $20.4 million (Canadian funds).

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

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

(i) Investment SCR Mining and Tunneling, LP (“SCR”):

The Corporation holds 4,000,001 preferred partnership units (“SCR Units”) in SCR acquired in 2013 for $40 million.

Pursuant to the partnership agreement dated May 23, 2013, the SCR Units entitle the Corporation to receive an annual preferred distribution in priority to distributions on SCR’s other partnership units in an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in SCR’s gross revenues for the previous fiscal year. Distributions on the SCR units are receivable monthly.

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

(j) Investment in Sequel Youth and Family Services, LLC (“Sequel”):

On July 1, 2013, the Corporation, through its wholly-owned subsidiary Alaris USA Inc., acquired 810,000 Class C limited liability company units and 92,045 Class D limited liability company units (“Sequel Units”) in Sequel Youth Family Services, LLC, an American corporation, for an aggregate acquisition cost of $73.5 million USD.

Pursuant to the operating agreement dated July 1, 2013, the Sequel Units entitle the Corporation to receive an annual preferred distribution in priority to distributions on Sequel’s common units in an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in Sequel’s same program revenues for the previous fiscal year. Distributions on the Sequel units are receivable monthly.

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

(k) Investment in SM Group International, LP ("SMi"):

The Corporation holds 4,050,001 preferred partnership units ("SMi Units") in SMi acquired for an aggregate acquisition cost of $40.5 million.

Pursuant to the partnership agreement dated November 8, 2013, the SMi Units entitle the Corporation to receive an annual preferred distribution in priority to distributions on SMi's other partnership units in an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in SMI's gross revenues for the previous fiscal year. Distributions on the SMi units are receivable monthly.

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

(l) Investment Kimco Holdings, LLC ("Kimco"):

On June 6, 2014, the Corporation, through its wholly-owned subsidiary Alaris USA Inc., acquired 10,000 Class C limited liability company units ("Kimco Units") in Kimco for $29.2 million USD. On December 21, 2015, an additional 1,028 Class D limited liability company units in Kimco were acquired for $3 million USD.

Pursuant to the operating agreement dated June 6, 2014, the Kimco Units entitle the Corporation to receive an annual preferred distribution in priority to distributions on Kimco's other LLC units in an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in Kimco's gross revenues for the previous fiscal year. Distributions on the Kimco units are receivable monthly.

Kimco has the option at any time after June 6, 2017 to repurchase the units at a pre-negotiated premium to the original purchase price.

(m) Investment PF Growth Partners, LLC ("Planet Fitness"):

On November 25, 2014, the Corporation, through its wholly-owned subsidiary Alaris USA Inc., acquired 1,500,000 Class B and 1 Class D limited liability company units ("Planet Fitness Units") in Planet Fitness for $35 million USD.

Pursuant to the operating agreement dated November 25, 2014, the Planet Fitness Units entitle the Corporation to receive an annual preferred distribution in priority to distributions on Planet Fitness' other LLC units in an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in Planet Fitness' same club revenues for the previous fiscal year. Distributions on the Planet Fitness units are receivable monthly.

On July 1, 2015, the Corporation made a $5 million USD contribution to current partner Planet Fitness for 500,000 Class C Preferred LLC units. Distributions on the Class C units for the first twelve months are set at $700,000 USD.

Planet Fitness has the option at any time after November 25, 2017 to repurchase the units at a pre-negotiated premium to the original purchase price.

(n) Investment in DNT, LLC ("DNT"):

On June 1, 2015, the Corporation, through its wholly-owned subsidiary Alaris USA Inc., acquired 2,500,000 Class B preferred LLC units, 30,000,000 Class C preferred LLC units, 37,500,000 Class D preferred units and 1 Class E preferred LLC unit (collectively the "DNT units") in DNT for $70.0 million USD.

Pursuant to the LLC agreement dated June 1, 2015, the DNT units entitle the Corporation to receive an annual preferred distribution of $10,500,000 USD in priority to distributions on DNT's other LLC units in an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in DNT's gross revenues for the previous fiscal year. Distributions on the DNT units are receivable monthly.

DNT has the option at any time after June 1, 2018 to repurchase $40.0 million USD of the units at a pre-negotiated premium to the original purchase price while $30.0 million USD of the units are redeemable at par up until June 1, 2018. Any unredeemed units after June 1, 2018 become subject to the pre-negotiated premium.

(o) Investment in Federal Resources Supply Company ("FR"):

On June 26, 2015, the Corporation loaned $40.0 million USD to FR and acquired 10,000 Class C preferred shares in FR for $7.0 million USD ("FR Preferred Shares").

Pursuant to the loan agreement dated June 26, 2015, in each fiscal year of the 15 year loan, the Corporation is entitled to receive interest payments of $7,050,000 USD in priority to distributions on Federal Resources' other common units. The Corporation is accounting for this loan as an available for sale financial asset. In addition, commencing in January, 2017, the FR Preferred Shares will entitle Alaris to receive an annual preferred dividend based on an increase to Federal Resources' gross revenues (subject to a 6% collar). Such annual dividend will be adjusted (up or down) each year based on any increases or decreases in Federal Resources "gross revenues" for its immediately preceding fiscal year, subject to a maximum increase or decrease of six percent (6%) per year. Interest payments and future dividends from FR are receivable monthly.

FR has the option at any time after June 26, 2018 to repurchase the units at a pre-negotiated premium to the original purchase price.

(p) Investment in Mid-Atlantic Health Care, LLC ("MAHC"):

On December 31, 2015, the Corporation, through its wholly-owned subsidiary Alaris USA Inc., acquired 88,555 Class B preferred LLC units, 114,458.51 Class C preferred LLC units and 1 Class D preferred LLC unit (collectively the "MAHC units") in MAHC for $13.275 million USD.

Pursuant to the LLC agreement dated December 31, 2015, the MAHC units entitle the Corporation to receive an annual preferred distribution of $1,987,500 USD in priority to distributions on MAHC's other LLC units in an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in MAHC's gross revenues for the previous fiscal year. Distributions on the MAHC units are receivable monthly.

The Corporation has agreed to contribute up to an additional US$14,000,000 to MAHC in exchange for an additional distribution of up to US$2,000,000. The additional contribution is at the option of MAHC and is expected to close in multiple tranches throughout 2016 and is subject to certain customary closing conditions.

MAHC has the option at any time after December 31, 2018 to repurchase the units at a pre-negotiated premium to the original purchase price.

II – Intangible Assets

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

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

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

## 6. Income tax expense:

Income tax expense is recognized based on management’s best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The Corporation’s consolidated effective tax rate for the year ended December 31, 2015 was 26.47% (year ended December 31, 2014 – 26.09%). The change in the Corporation’s consolidated effective tax rate from 2014 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 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:

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Earnings before income taxes | $ | 72,176,633 | $ | 59,850,600 |
| Combined federal and provincial statutory income tax rate | | 26.47% | | 26.09% |
| Expected income tax provision | $ | 19,105,155 | $ | 15,615,022 |
| Rate differences of foreign jurisdictions | | (3,457,367) | | (2,564,183) |
| Non-taxable portion of capital gains | | (2,137,688) | | (1,105,813) |
| Non-deductible expense and other | | 1,453,803 | | 498,726 |
| Prior period adjustment | | (648,746) | | (1,973,493) |
| Unrecognized deferred tax asset | | - | | 331,230 |
| | $ | 14,315,157 | $ | 10,801,489 |

Cash taxes paid during the year were $12,492,285 (2014 - $3,077,139).

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

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Deferred income tax assets (liabilities): | | | | |
| Non-capital losses and unclaimed scientific research and development expenses ("SRED") | $ | 1,330,848 | $ | 3,735,552 |
| Equipment | | (4,095) | | 16,519 |
| Share issue costs | | 3,040,449 | | 2,857,765 |
| Intangible assets | | (1,716,357) | | (1,702,303) |
| Investment tax credits | | (2,893,398) | | (2,849,668) |
| Preferred partnership units | | (16,257,183) | | (4,496,644) |
| Partnership deferral | | (1,581,013) | | (3,928,534)- |
| Investment in sub or other items | | 3,584,307 | | - |
| Derivatives | | (3,468,179) | | (816,709) |
| Foreign exchange on loan receivable | | (765,561) | | - |
| Distributions to be taxed in future years | | (760,612) | | (528,646) |
| | $ | (19,490,794) | $ | (7,712,668) |

As at December 31, 2015, the Corporation has unused federal investment tax credits which expire from time to time as follows:

| | | |
|---|---|---|
| 2020 | $ | 1,434,252 |
| 2021 | | 1,295,097 |
| 2022 | | 3,296,237 |
| 2023 | | 1,840,597 |
| 2024 | | 647,624 |
| | $ | 8,513,807 |

| **Movement in deferred tax balances during the year** | **Deferred Income Taxes** |
|---|---|
| Balance at January 1, 2014 | $ 3,785,015 |
| Recognized in profit and loss | (11,901,005) |
| Recognized directly in equity | 1,233,239 |
| Recognized in other comprehensive income | (606,871) |
| Currency translation and other | (223,046) |
| Balance at December 31, 2014 | $ (7,712,668) |
| Recognized in profit and loss | (12,052,333) |
| Reduction to investment tax credit | 2,408,586 |
| Recognized directly in equity | 1,443,900 |
| Recognized in other comprehensive income | (2,127,342) |
| Currency translation and other | (1,450,937) |
| Balance at December 31, 2015 | $ (19,490,794) |

Remaining investment tax credits of $8.5 million at December 31, 2015 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.

Alaris is currently being audited by the Canada Revenue Agency (“CRA”) and anticipates that the legal proceedings through the CRA and tax courts will take considerable time to resolve. Alaris’ aggregate total assessed tax liability (including interest) is estimated to be approximately $34.2 million (see table below) and the total aggregate deposits Alaris would be required to pay in order to contest such reassessments is estimated to be approximately $13 million, with the remaining amount not payable until the dispute with the CRA is resolved and only if the result is not in Alaris’ favor. Alaris has adequate capital available to pay the maximum amount of all tax liabilities it could incur if it was reassessed on all of its tax filings to date and if these reassessments were ultimately upheld through the tax adjudication process.

| Tax Year | **Losses Applied** | **Estimated tax and interest** |
|---|---|---|
| July 2009 | $10,532,000 | $4,108,000 |
| December 2009 | 1,916,000 | 719,000 |
| December 2010 | 14,646,000 | 5,273,000 |
| December 2011 | 14,992,000 | 4,908,000 |
| December 2012 | 16,774,000 | 4,947,000 |
| December 2013 | 22,642,000 | 6,286,000 |
| December 2014 | 29,153,000 | 7,958,000 |
| | $110,655,000 | $34,199,000 |

## 7. Equipment:

Equipment consists of leasehold improvements, furniture and fixtures, and computer equipment. The amounts are net of accumulated depreciation of $301,111 (December 31, 2014 - $188,878). During the year ended December 31, 2015, the Corporation acquired assets with a cost of $794,611 (2014 - $69,340). The additions in the current year were predominantly leasehold improvements at new office space the Corporation moved into in July 2015.

## 8. Share capital:

| Issued Common Shares | Number of Shares | Amount |
|---|---|---|
| Balance at January 1, 2014 | 28,693,694 | $413,237,576 |
| Issued by short form prospectus | 3,274,050 | 87,417,135 |
| Short form prospectus costs, net of tax | - | (3,388,299) |
| Issued after director RSU vesting | 26,250 | 698,775 |
| Options exercised in the period | 78,364 | 123,737 |
| Fair value of options exercised in the period | - | 274,142 |
| Balance at December 31, 2014 | 32,072,358 | $498,363,066 |
| Issued after RSU vesting | 170,585 | 3,795,607 |
| Issued by short form prospectus | 3,771,655 | 115,035,478 |
| Short form prospectus costs, net of tax | - | (4,010,958) |
| Options exercised in the period | 288,138 | 3,956,988 |
| Fair value of options exercised in the period | - | 486,592 |
| Balance at December 31, 2015 | 36,302,736 | $617,626,773 |

The Corporation has authorized, issued and outstanding, 36,302,736 voting common shares as at December 31, 2015.

| | 2015 | 2014 |
|---|---|---|
| Weighted average shares outstanding, basic | 33,960,479 | 30,446,449 |
| Effect of outstanding options | 186,024 | 384,881 |
| Effect of outstanding RSUs | 243,852 | 264,410 |
| Weighted average shares outstanding, fully diluted | 34,390,355 | 31,095,740 |

760,601 options were excluded from the calculation as they were anti-dilutive at December 31, 2015.

***Dividends***

The following dividends were declared and paid in the month following by the Corporation:

In each of the first five months of 2015, the Corporation declared a dividend of $0.125 per common share; for June the Corporation declared a dividend of $0.13 per common share; and for July through December the Corporation declared a dividend of $0.135 per common share ($1.565 per common share and $53,517,530 in aggregate). For the year ended December 31, 2014, dividends of $1.475 per share and $45,279,198 in aggregate were declared.

## 9. Debt:

In November 2015, the Corporation agreed to a new $200,000,000 secured revolving credit facility with a syndicate of Canadian chartered banks. This expanded facility (previously $90 million 365 day revolving facility) will allow the Corporation to carry up to 1.5x EBITDA in debt over the four year term while keeping the remainder available for new transactions. The four year revolving facility has no amortization, the annual fees were reduced and the interest rate is 0.50% lower than the current facility.

Interest is payable at the lenders' prime rate plus 2.25% (4.95% at December 31, 2015). There are financial covenants under this facility and at December 31, 2015, the Corporation is in compliance with each of the covenants.

| Total Debt Continuity | Amount |
|---|---|
| Balance at January 1, 2015 | $ 35,500,000 |
| Senior debt repayment, January 2015 | (35,500,000) |
| Senior debt advance, May 2015 (DNT) | 85,000,000 |
| Senior debt repayment, June 2015 (FR & follow on) | 72,000,000 |
| Senior debt repayment, July 2015 | (115,300,000) |
| Senior debt advance, October 2015 (SM) | 5,000,000 |
| Senior debt advance, November 2015 (Kimco, facility fees) | 6,247,075 |
| Senior debt advance, December 2015 (MAHC, SM) | 24,500,000 |
| Balance at December 31, 2015 | $ 77,447,075 |

## 10. Share-based payments:

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

The RSU Plan will settle in voting common shares which may be issued from treasury or purchased on the Toronto Stock Exchange. The Corporation has reserved 648,386 and issued 243,852 RSUs to management and Directors as of December 31, 2015. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (186,580) do not vest until the end of the three year period (41,619 in July 2016; 12,681 in August 2017, and 132,280 in July 2018) 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 was amortized over the thirty-six month vesting period.

For the year ended December 31, 2015, the Corporation incurred stock-based compensation expenses of $3,535,268 (2014 - $4,143,549) which includes: $2,340,386 (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2014 - $1,974,904); and $1,194,882 (non-cash expense) for the amortization of the fair value of outstanding stock options (2014 - $2,168,644). The Corporation has reserved 2,223,305 and issued 1,966,484 options that vest over a four-year period and expire in five years. The options outstanding at December 31, 2015, have an exercise price in the range of $11.56 to $33.87 and a weighted average contractual life of 2.87 years (2014 – 2.95 years).

| | Weighted Avg Exercise Price 2015 | Number of Options 2015 | Weighted Avg Exercise Price 2014 | Number of Options 2014 |
|---|---|---|---|---|
| Outstanding at January 1 | $28.58 | 1,955,357 | $23.67 | 1,748,998 |
| Exercised during the year | $15.08 | (357,947) | $10.90 | (115,250) |
| Forfeited during the year | $29.37 | (169,773) | - | - |
| Granted during the year | $24.78 | 538,847 | $31.29 | 321,609 |
| Outstanding at December 31 | $26.93 | 1,966,484 | $28.58 | 1,955,357 |
| Exercisable at December 31 | $25.67 | 843,657 | $20.62 | 841,241 |

The following table summarizes the options outstanding and exercisable as at December 31, 2015:

| Exercise price | Number outstanding | Weighted average remaining life (years) | Number exercisable |
|---|---|---|---|
| $11.56 | 1,250 | 0.00 | 1,250 |
| $15.48 | 65,750 | 0.59 | 65,750 |
| $16.87 | 123,025 | 0.95 | 123,025 |
| $23.53 | 432,011 | 1.68 | 324,008 |
| $33.87 | 512,895 | 2.57 | 256,448 |
| $26.79 | 45,000 | 3.05 | 11,250 |
| $31.15 | 227,706 | 3.59 | 56,927 |
| $33.06 | 20,000 | 3.59 | 5,000 |
| $24.78 | 538,847 | 4.50 | - |
| | 1,966,484 | 2.87 | 843,658 |

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

| | Dividend Yield | Expected Volatility | Risk Free Rate of Return | Expected Life | Weighted Average Value |
|---|---|---|---|---|---|
| Dec 2010 | 8.72% | 51.79% | 2.23% | 4.325 | $2.5887 |
| Aug 2011 | 6.68% | 46.49% | 1.61% | 4.325 | $3.5070 |
| Dec 2011 | 6.79% | 45.08% | 1.16% | 4.325 | $3.5666 |
| Sept 2012 | 5.12% | 37.73% | 1.27% | 4.325 | $4.7096 |
| July 2013 | 4.25% | 31.68% | 1.58% | 4.325 | $6.1073 |
| Jan 2014 | 5.56% | 26.60% | 1.56% | 4.325 | $3.3514 |
| Aug 2014 | 4.82% | 25.82% | 1.46% | 4.325 | $4.1461 |
| Sept 2014 | 4.54% | 25.65% | 1.68% | 4.325 | $4.6295 |
| July 2015 | 6.51% | 25.01% | 0.96% | 4.325 | $2.2472 |

## 11. Related parties:

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

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

| | 2015 | 2014 |
|---|---|---|
| Base salaries and benefits | $876,492 | $860,687 |
| Bonus | 360,000 | 1,325,000 |
| Non cash stock-based compensation | 2,611,211 | 911,245 |
| | $3,847,703 | $3,096,932 |

## 12. Commitments & contingencies:

In 2009, the Corporation signed a seven-year lease that commenced December 1, 2009, ending November 30, 2016. In December 2014, the Corporation signed a five-year lease at a new location as the Corporation has outgrown the current space. The Corporation's annual commitments, net of sub lease revenue from the 2009 lease, under both leases are as follows:

| | | |
|---|---|---|
| 2016 | $ | 484,832 |
| 2017 | | 410,494 |
| 2018 | | 421,033 |
| 2019 | | 431,572 |
| 2020 | | 215,786 |
| | $ | 1,963,717 |

***Income taxes***

In 2014, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009 (the "Reassessments"). In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation years ended December 31, 2009 through December 31, 2014. Pursuant to the Reassessments, the deduction of approximately $110 million of non-capital losses by the Corporation was denied, resulting in reassessed taxes and interest of approximately $34.2 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 for taxation years from 2006 through to 2012. 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 reassessment. The Corporation has received legal advice that it should be entitled to deduct the non-capital losses and as such, the Corporation remains of the opinion that its July 14, 2009 tax return, and each return filed after that date, were filed correctly and it will be successful in appealing such Reassessment. The Corporation intends to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amount as a deposit to the Canada Revenue Agency. The Corporation paid $1.27 million in deposits in 2014 and an additional $10.7 million in 2015 relating to these reassessments. Subsequent to December 31, 2015 the Corporation paid a $1.3 million deposit to the Alberta Treasury Board and Finance. It is possible that the Corporation may be reassessed with respect to the deduction of its non-capital losses in respect of its tax filings subsequent to December 31, 2015, on the same basis.

Remaining investment tax credits of $8.4 million at December 31, 2015 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.

**13. Subsequent events:**

Subsequent to December 31, 2015, the Corporation redeemed all of its preferred units in LifeMark in exchange for $30 million in cash and an $8.4 million promissory note with interest at 11.15% (principal of the note and the annual interest rate increase at 4% each July 1st as per the previous business terms of the preferred units).

Subsequent to December 31, 2015, the Corporation, through its wholly-owned subsidiary Alaris USA Inc., collectively contributed $22.0 million USD to Sandbox Acquisitions, LLC and its affiliate (collectively “Sandbox”). Pursuant to agreements dated March 8, 2016, the Corporation is entitled to receive an annual preferred distribution of $3.3 million USD in priority to distributions on Sandbox’s common shares in an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in Sandbox’s gross revenues for the previous fiscal year subject to a maximum increase or decrease of 6%. Distributions on the Sandbox units are receivable monthly.