Consolidated Financial Statements of

ALARIS ROYALTY CORP.

Audited financial statements for the years ended
December 31, 2017 and 2016

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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, 2017 and December 31, 2016, the consolidated statements of comprehensive income/(loss), 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, 2017 and December 31, 2016, 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 5, 2018

Calgary, Canada

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Alaris Royalty Corp.

Consolidated statement of financial position

$ thousands	Note	31-Dec 2017	31-Dec 2016
Assets			
Cash and cash equivalents		$ 35,475	$ 29,491
Prepayments		2,407	2,097
Foreign exchange contracts	10	1,430	-
Trade and other receivables	5	8,642	16,762
Investment tax credit receivable	9	2,957	3,654
Promissory notes receivable	5	15,403	21,922
Current Assets		$ 66,315	$ 73,926
Promissory notes and other receivables	5	32,017	7,891
Deposits	9	19,252	16,256
Equipment		503	647
Intangible assets	5	6,116	6,206
Investments at fair value	5	669,216	681,093
Investment tax credit receivable	9	-	1,201
Non-current assets		727,103	713,295
Total Assets		**$ 793,418**	**$ 787,221**
Liabilities			
Accounts payable and accrued liabilities		$ 1,707	$ 3,057
Dividends payable		4,921	4,905
Foreign exchange contracts	10	-	712
Income tax payable	9	588	2,007
Current Liabilities		7,217	10,682
Deferred income taxes	9	8,192	22,458
Loans and borrowings	7	173,464	99,383
Non-current liabilities		181,656	121,841
Total Liabilities		**$ 188,873**	**$ 132,523**
Equity			
Share capital	6	$ 620,842	$ 617,893
Equity reserve		12,058	11,628
Fair value reserve		(17,036)	(27,931)
Translation reserve		5,767	23,029
Retained earnings / (deficit)		(17,087)	30,079
Total Equity		**$ 604,545**	**$ 654,698**
Total Liabilities and Equity		**$ 793,418**	**$ 787,221**

Commitments	11
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 / (loss)
For the year ended December 31

$ thousands except per share amounts	Note	Year ended December 31 2017	2016
Revenues			
Royalties and distributions	5	$ 86,684	$ 98,486
Interest and other	5	2,389	1,556
Total Revenue		89,073	100,042
Other income			
Gain on partner redemptions	5	26,575	20,271
Realized gain on foreign exchange contracts		1,370	3,473
Total other income		27,945	23,744
Salaries and benefits		3,371	3,361
Corporate and office		2,597	3,297
Legal and accounting fees		2,096	2,513
Non-cash stock-based compensation	8	3,379	4,369
Bad debt expense & reserve	5	23,430	2,442
Impairment and other charges	5	42,491	7,000
Depreciation and amortization		268	279
Total Operating Expenses		77,632	23,260
Earnings before the undernoted		**39,386**	**100,526**
Finance costs	7	6,582	5,882
Unrealized (gain) on foreign exchange contracts		(2,144)	(4,633)
Unrealized foreign exchange loss		12,793	13,136
Earnings before taxes		**22,155**	**86,142**
Current income tax expense		22,089	7,104
Deferred income tax expense / (recovery)		(11,815)	12,484
Total income tax expense		10,274	19,589
Earnings		**$ 11,882**	**$ 66,553**
Other comprehensive income			
Transfer on redemption of investments at fair value		$ (9,062)	$ (27,399)
Transfer from fair value reserve to impairment and other charges		4,250	-
Net change in fair value of investments at fair value		16,692	(8,020)
Tax effect of items in other comprehensive income		(984)	5,613
Foreign currency translation differences		(17,262)	(4,622)
Other comprehensive (loss) for the year net of income tax		(6,366)	(34,428)
Total comprehensive income for the year		**$ 5,516**	**$ 32,125**
Earnings per share			
Basic	6	$0.33	$1.83
Fully diluted	6	$0.32	$1.81

Alaris Royalty Corp.

Consolidated statement of changes in equity

For the year ended December 31, 2016

$ thousands	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2016		$ 617,627	$ 7,526	$ 1,875	$ 27,651	$ 22,368	$ 677,046
Earnings for the year		$ -	$ -	$ -	$ -	$ 66,553	$ 66,553
Other comprehensive income / (loss)							
Transfer on redemption of investments at fair value		-	-	(27,399)	-	-	(27,399)
Transfer from fair value reserve to impairment and other charges		-	-	-	-	-	-
Net change in investments at fair value		-	-	(8,020)	-	-	(8,020)
Tax effect on items in other comprehensive income		-	-	5,613	-	-	5,613
Foreign currency translation differences		-	-	-	(4,622)	-	(4,622)
Total other comprehensive income / (loss)		-	-	(29,806)	(4,622)	-	(34,428)
Total comprehensive income / (loss) for the year		$ -	$ -	$ (29,806)	$ (4,622)	$ 66,553	$ 32,125
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	8	$ -	$ 4,369	$ -	$ -	$ -	$ 4,369
Dividends to shareholders	6	-	-	-	-	(58,842)	(58,842)
Options exercised in the period		266	(266)	-	-	-	-
Total transactions with Shareholders of the Company		266	4,103	-	-	(58,842)	(54,474)
Balance at December 31, 2016		**$ 617,893**	**$ 11,628**	**$ (27,931)**	**$ 23,029**	**$ 30,079**	**$ 654,698**

Alaris Royalty Corp.

Consolidated statement of changes in equity

For the year ended December 31, 2017

$ thousands	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings / (Deficit)	Total Equity
Balance at January 1, 2017		$ 617,893	$ 11,628	$ (27,931)	$ 23,029	$ 30,079	$ 654,698
Earnings for the year		$ -	$ -	$ -	$ -	$ 11,882	$ 11,882
Other comprehensive loss							
Transfer on redemption of investments at fair value		-	-	(9,062)	-	-	(9,062)
Transfer from fair value reserve to impairment and other charges				4,250			4,250
Net change in investments at fair value		-	-	16,692	-	-	16,692
Tax effect on items in other comprehensive income		-	-	(984)	-	-	(984)
Foreign currency translation differences		-	-	-	(17,262)	-	(17,262)
Total other comprehensive income / (loss)		-	-	10,896	(17,262)	-	(6,366)
Total comprehensive income / (loss) for the year		$ -	$ -	$ 10,896	$ (17,262)	$ 11,882	$ 5,516
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	8	$ -	$ 3,379	$ -	$ -	$ -	$ 3,379
Dividends to shareholders	6	-	-	-	-	(59,048)	(59,048)
Options / RSU's exercised in the period		2,950	(2,950)	-	-	-	-
Total transactions with Shareholders of the Company		2,950	429	-	-	(59,048)	(55,669)
Balance at December 31, 2017		**$ 620,842**	**$ 12,058**	**$ (17,035)**	**$ 5,767**	**$ (17,087)**	**$ 604,545**

Alaris Royalty Corp.
Consolidated statement of cash flows
For the year ended December 31

$ thousands	Notes	Year ended December 31 2017	2016
Cash flows from operating activities			
Earnings from the year		$ 11,882	$ 66,553
Adjustments for:			
Finance costs	7	6,582	5,882
Deferred income tax expense / (recovery)	9	(11,815)	12,484
Depreciation and amortization		268	279
Bad debt expense & reserve	5	23,430	2,442
Impairment and other charges	5	42,491	7,000
Gain on partner redemptions, net of cash taxes	5	(10,535)	(20,271)
Unrealized (gain) on foreign exchange contracts		(2,144)	(4,633)
Unrealized foreign exchange loss		12,793	13,136
Non-cash stock-based compensation	8	3,379	4,369
		$ 76,331	$ 87,241
Change in:			
- trade and other receivables	5	(1,693)	(13,018)
- income tax receivable / payable	9	319	3,694
- prepayments		227	337
- accounts payable and accrued liabilities		(1,350)	919
Cash generated from operating activities		73,834	79,174
Finance costs	7	(6,582)	(5,882)
Net cash from operating activities		$ 67,252	$ 73,292
Cash flows from investing activities			
Acquisition of equipment		$ (32)	$ (43)
Acquisition of preferred units	5	(175,293)	(110,882)
Proceeds from partner redemptions, net of cash taxes	5	116,277	103,212
Promissory notes issued	5	(16,467)	(6,750)
Promissory notes repaid	5	617	313
Net cash used in investing activities		$ (74,899)	$ (14,151)
Cash flows from financing activities			
Repayment of debt	7	$ (116,277)	$ (78,863)
Proceeds from debt	7	196,528	99,657
Dividends paid	6	(59,032)	(58,838)
Deposits with CRA	9	(2,422)	(4,233)
Net cash from / (used in) financing activities		$ 18,797	$ (42,278)
Net increase in cash and cash equivalents		$ 11,151	$ 16,863
Impact of foreign exchange on cash balances		(5,166)	(8,363)
Cash and cash equivalents, Beginning of year		29,491	20,991
Cash and cash equivalents, End of year		$ 35,475	$ 29,491
Cash taxes paid		$ 26,712	$ 7,900

1. Reporting entity:

Alaris Royalty Corp. is a company domiciled in Calgary, Alberta, Canada. The consolidated financial statements as at and for the year ended December 31, 2017 comprise Alaris Royalty Corp. and its subsidiaries (together referred to as the "Corporation"). The Corporation's Canadian operations are conducted through a partnership (Alaris Income Growth Fund Partnership) and Salaris Small Cap. Royalty Corp. ("Salaris"). The Corporation's American operations are conducted through two Delaware Corporations, Alaris USA Inc.("Alaris USA") and Salaris USA Royalty Inc. ("Salaris USA"). The Corporation's operations consist primarily of investments in private operating entities, typically in the form of preferred limited partnership interests, preferred interest in limited liability corporations in the United States, loans receivable, or long-term license and royalty arrangements. The Corporation also has wholly-owned subsidiaries in the Netherlands, Alaris Cooperatief U.A. ("Alaris Cooperatief") and Salaris Cooperatief U.A. ("Salaris Cooperatief").

2. Statement of compliance:

(a) Statement of compliance

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

These consolidated financial statements were approved by the Board of Directors on March 5, 2018.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Available-for-sale financial assets (Investments at fair value) are measured at fair value with changes in fair value recorded in other comprehensive income or earnings if the asset is impaired.
- Derivative financial instruments are measured at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars which is the Corporation's functional currency. Alaris USA Inc. and Salaris USA have the United States dollar, while Alaris Cooperatief and Salaris Cooperatief have the Canadian dollar as the functional currencies.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Key judgments

A key judgment relates to the consideration of control, joint control and significant influence in each of our investments. The Corporation has agreements with various partners and these agreements include not only clauses as to distributions but also various protective rights. The Corporation has assessed these rights under IFRS 10 and 11 and determined that consolidation is not appropriate. In a number of our investments we have protective rights, which provides the

Corporation the right to demand repayment of our investment if it is in default of the terms of our operating agreement. Failure to satisfy the demand for repayment can lead to the Corporation's rights to allow it to control the investment.

Key estimates used in discounted cash flow projections

Key assumptions used in the calculation of the fair value of available for sale financial assets are discount rates, terminal value growth rates and annual performance metric growth rates. Where partners are in default, other valuation methods may be used. See note 5 for details in respect of the calculation.

Collectability of amounts receivable

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

Income taxes

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

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 and when reasonable assurance of collection exists.

(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. 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, trade and other receivables, and promissory notes and other receivables.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash balances and banker's acceptances with original maturities of 90 days 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 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. The Corporation does not apply hedge accounting to these hedging contracts.

(d) Share capital

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

(e) Equipment

(i) Recognition and measurement

Equipment is measured at cost less accumulated depreciation.

(ii) Depreciation

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

(f) Intangible assets

(i) Intangible assets

Intangible assets are comprised solely of the Corporation's investment in certain intellectual property of End of the Roll, which has a finite useful life and is 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 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

IFRS 9: Financial Instruments

On July 24, 2014, the IASB issued the final version of IFRS 9, "Financial Instruments" ("IFRS 9") to replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39").

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

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

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

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

IFRS 9 is effective for years beginning on or after January 1, 2018. Based on the assessments undertaken to date, the following classification and measurement differences between IAS 39 and IFRS 9 are expected:

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

Although the investments at fair value will continue to be measured at fair value, fair value gains or losses will be recorded through profit or loss as opposed to through other comprehensive income. Therefore, on transition to IFRS 9, an adjustment will be made to move cumulative fair value gains or losses from the fair value reserve to retained earnings. The Corporation is still assessing the classification and measurement of its loan to Federal Resources, which will either be at amortized cost or at FVTPL. Should it be classified at amortized cost, a transition adjustment for this change in classification and measurement will be required. No other adjustments to opening retained earnings are anticipated on adoption of IFRS 9 as it relates to classification and measurement of financial assets.

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

The Corporation has compared its existing methodology to determining credit losses and compared to the expected credit loss model that will be applied to assets classified at amortized cost. The Corporation is in the process of finalizing the quantum of this adjustment, however, does not expect it to be material.

IFRS 15: Revenue from Contracts with Customers

Revenue from Contracts with Customers provides guidance on revenue recognition and relevant disclosures, and is effective for annual reporting periods beginning on or after January 1, 2018. Due to the fact that the majority of its revenues are generated from financial instruments and therefore not in the scope of IFRS 15, the Corporation does not expect any material changes to its revenue recognition and does not anticipate any transition adjustments.

4. Financial risk management Overview

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

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

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

Risk Management Framework

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

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

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

Credit Risk and Other Price Risk

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

However, management also considers the demographics of counterparties, including the default risk of the industry and country in which counterparties operate, as these factors may have an influence on credit risk. No single partner accounted for more than 20% of the Corporation's revenue in the year ended December 31, 2017. See note 5 for additional information on distributions receivable that are past due.

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

The Corporation is exposed to credit related losses on current and future amounts receivable pursuant to investment agreements and outsanding promissory notes. In the event of non-performance by partners, future royalty and distribution revenue from the investments could be reduced, resulting in impairment of investment values. The investment agreements typically provide that payments are receivable monthly no later than the last day of the month.

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing in less than 90 days. The Corporation manages the credit exposure related to short-term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper. The Corporation held cash and cash equivalents of $35.5 million at December 31, 2017 (December 31, 2016 - $29.5 million), which represents its maximum credit exposure on these assets. The unusually high amount of cash was in place in order to fund a transaction of US$15 million (approximately $18.8 million) in January 2018 (see Note 13).

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

Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

Typically the Corporation ensures that it has sufficient cash on hand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. In addition, the Corporation maintains a $200 million, four year revolving credit facility, and has $173.5 million balance drawn at December 31, 2017 ($99.5 million at December 31, 2016). Subsequent to December 31, 2017, the facility was increased to $280 million. The Corporation has the following financial instruments that mature as follows:

31-Dec-17	Total	0-6 Months	6 mo – 1 yr	1 – 2 years	3 – 4 years
Accounts payable and accrued liabilities	($1,707)	($1,707)	$-	$-	$-
Dividends payable	(4,921)	(4,921)	-	-	-
Income tax (payable) / receivable	(588)	(588)	-	-	-
Loans and borrowings	(173,464)	-	-	-	(173,464)
Total	**($180,681)**	**($7,217)**	**$-**	**$-**	**($173,464)**

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. All such transactions are carried out within the guidelines set by the Risk Management Committee.

Foreign currency exchange rate risk and commodity price risk

As a result of the investments in the United States, the Corporation has exposure to foreign currency exchange rate risk. The Corporation purchases forward exchange rate contracts to match expected distributions in US dollars on a rolling 12 month basis and also for between 25% to 50% of the expected distributions on a rolling 12 to 24 month basis (current notional value of US$33.6 million). The Corporation intends to purchase additional contracts each quarter so that approximately two years of distributions would be hedged against movement in the US Dollar compared to the Canadian dollar. As at December 31, 2017, if the US foreign exchange rate had been $0.01 lower with all other variables held constant, net income for the year would have been approximately $0.4 million lower, due to a smaller unrealized foreign exchange gain during the period. An equal and opposite impact would have occurred to net income had foreign exchange rates been $0.01 higher.

Additionally, the Corporation has US dollar subsidiaries and loans in US dollars (external senior debt, intercompany and with Federal Resources) that are translated at each balance sheet date with an unrealized foreign exchange gain or loss recorded in earnings. As at December 31, 2017, if the US foreign exchange rate had been $0.01 lower with all other variables held constant, net income for the year would have been approximately $1.4 million lower due to lower net income from US subsidiaries, a larger unrealized loss on loans to subsidiaries and Federal Resources, partially offset by a higher unrealized gain on USD denominated external debt.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate fluctuations on its bank debt that bears a floating rate of interest. As at December 31, 2017, if interest rates had been 1% higher with all other variables held constant, net income for the year would have been approximately $1.1 million lower, due to higher interest expense. An equal and opposite impact would have occurred to net income had interest rates been 1% lower. The Corporation had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2017.

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital, a four year, $200 million revolving credit facility, a $50 million accordion facility and retained earnings. The Board of Directors monitors the return on capital as well as the level of dividends to common shareholders.

The Corporation manages capital by monitoring certain debt covenants set out in its credit facility. The Corporation has a maximum senior debt to contracted EBITDA of 2.5:1 which can extend to 3.0:1 for a period of 90 days (actual ratio is 1.97:1 at December 31, 2017). 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 and for distributions that have been accrued and are past due. The Corporation has a fixed charge coverage ratio covenant of 1:1 (actual ratio is 1.07:1 at December 31, 2017). Additionally, a minimum tangible net worth requirement of $450 million is in place (actual amount is $598.4 million at December 31, 2017). 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, 2017. In order to acquire more distributions and royalties, the Corporation can access its credit facility for investing activity. Any funding requirements for acquisitions in excess of availability under the credit facility will require, the Corporation to access public equity markets and manage the business within the bank covenants. There were no significant changes in the Corporation's approach to capital management, with a slight change in the tolerance to carry a permenant amount of long term debt in the capital structure if it reduces the Corporation's cost of capital. Subsequent to December 31, 2017, the Corporation received an increase in its revolving credit facility to $280 million ($200 million as of December 31, 2017), please see note 13 for details of the subsequent amendments to the Corporation's credit facility.

5. Investments at Fair Value

Differences in the acquisition cost of Agility, Sequel, Kimco, Planet Fitness, DNT, FED, Sandbox, Providence and Unify (formerly Matisia) at December 31, 2017 and December 31, 2016 are partially attributable to foreign currency translation.

31-Dec-17 *$ thousands*	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
Lower Mainland Steel Limited Partnership ("LMS")	$ 60,034	$ 656	$ 60,690	$ 35,917
Labstat International, LP ("Labstat")	47,200	519	47,719	61,324
Agility Health, LLC ("Agility")	25,232	781	26,013	26,133
SCR Mining and Tunneling, LP ("SCR")	40,000	487	40,487	26,203
SM Group International, LP ("Group SM")	40,500	717	41,217	-
Kimco Holdings, LLC ("Kimco")	42,928	1,252	44,180	29,045
PF Growth Partners, LLC ("Planet Fitness")	50,212	787	50,999	57,427
DNT, LLC ("DNT")	85,177	707	85,883	89,933
Federal Resources Supply Company ("FED"):	33,327	1,731	35,058	40,576
Sandbox Acquisitions, LLC ("Sandbox")	43,878	941	44,819	46,517
Providence Industries, LLC ("Providence")	37,659	488	38,147	40,661
Unify, LLC ("Unify") formerly Matisia, LLC	22,376	617	22,993	24,499
ccCommunications LLC ("ccComm")	7,786	456	8,242	7,941
Accscient, LLC ("Accscient")	25,887	548	26,435	25,514
Sales Benchmark Index LLC ("SBI")	106,829	442	107,271	107,158
Capitalized costs	-	155	155	155
Total LP and LLC Units	669,023	11,286	680,309	619,004
FED Loan Receivable	50,212	-	50,212	50,212
Total Investments at Fair Value	**$ 719,235**	**$ 11,286**	**$ 730,521**	**$ 669,216**

31-Dec-16	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LMS	$ 60,034	$ 656	$ 60,690	$ 36,215
KMH Limited Partnership ("KMH")	54,800	589	55,389	26,947
Labstat	47,200	519	47,719	49,199
Agility Health	27,075	838	27,913	26,965
SCR	40,000	487	40,487	30,488
Sequel Youth and Family Services, LLC ("Sequel")	99,005	769	99,774	109,498
Group SM	40,500	717	41,217	40,217
Kimco	46,064	1,344	47,407	31,166
Planet Fitness	53,880	845	54,725	59,062
DNT	94,290	758	95,048	99,197
FED	17,577	1,858	19,435	21,800
Sandbox	29,634	923	30,557	30,538
Providence	40,410	524	40,934	40,950
Unify (formerly Matisia)	24,010	662	24,672	24,672
Capitalized costs	-	298	298	298
Total LP and LLC Units	674,478	11,788	686,266	627,213
FED Loan Receivable	53,880	-	53,880	53,880
Total Investments at Fair Value	**$ 728,358**	**$ 11,788**	**$ 740,146**	**$ 681,093**

Transactions closed in 2017

Investment in ccCommunications LLC ("ccComm")

The Corporation contributed US$4 million (approximately CAD$5.4 million) to ccComm on January 10, 2017 in exchange for an annualized distribution of US$0.6 million (approximately CAD$0.8 million). ccComm is a Sprint retailer with over 50 locations throughout the Northwest U.S. The reset metric is net revenue with a collar of plus or minus 6%.

The Corporation contributed an additional US$2.2 million (approximately CAD$2.7 million) to ccComm on August 31, 2017 (ccComm Tranche #2) in exchange for an annualized distribution of US$0.3 million (approximately CAD$0.4 million). ccComm used the proceeds to acquire an additional 21 Sprint retail locations in the Northwest U.S.

Redemption of KMH Limited Partnership ("KMH") Units

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

As a result of the redemption of all outstanding KMH units, the Corporation has no remaining investments at fair value as of December 31, 2017 relating to KMH. The Corporation expects to receive the $20.7 million Phoenix Notes in three different tranches. The Corporation expects to receive value for the first tranche totaling $12.4 million within the next twelve months with the remaining $8.3 million collected over a longer term period as Phoenix continues with the strategic process and recapitalization of their U.S. business. Subsequent to December 31, 2017, the Corporation has the ability to compel the U.S. business to be sold. Phoenix has acknowledged this right and a strategic process to realize on the debt is under way.

As the redemption of the KMH units and the $3.5 million promissory notes resulted in an extinguishment of financial assets, the Corporation recorded an initial loss of $1.5 million, representing the difference between the carrying value of the assets given up and the fair value of the consideration received. The fair value of the consideration received was calculated as the cash proceeds plus the face value of the short term secured note plus the discounted value of the long-term secured note. The long term secured note of $8.3 million was discounted using a five year term and a 5% discount rate to arrive at the fair value. The fair value difference will be accreted to its face value over its estimated five year term, ($0.2 million was accreted during the twelve months ended December 31, 2017). See Promissory and Other Receivable table later in this note 5 for additional information on the valuation of these notes as at December 31, 2017.

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

On May 26, 2017, as per the terms of the partnership agreement, DNT returned US$2 million (CAD$2.7 million) as calculated based on their excess cash flow sweep. The return of US$2.0 million of redeemable shares result in the reduction of DNT net cost to US$68 million (US$40 million permanent units in addition to US$28 million of redeemable units). During the year ended December 31, 2017, the fair value of the DNT units was increased to US$71.6 million.

Investment in Accscient, LLC ("Accscient")

The Corporation contributed US$20.0 million (CAD$26.4 million) into Accscient LLC on June 20, 2017 in exchange for an annualized distribution of US$3.0 million (CAD$3.9 million). The Accscient Distribution will be reset for the first time on January 1, 2019 based on the percentage change in gross profit with a collar of plus or minus 5%. The Accscient Contribution is made up of US$14.0 million of permanent units as well as US$6.0 million of redeemable units (the "Redeemable Units"). The Redeemable Units can be redeemed at par by the issuer at any time up to the

third anniversary following the closing of the Accscient Contribution at Accscient's discretion. After the third anniversary the Redeemable Units will have the same repurchase metrics as the Permanent Units.

Investment in Sales Benchmark Index LLC ("SBI")

On August 31, 2017, the Corporation contributed US$85.0 million (CAD$106 million) into SBI in exchange for an annualized distribution of US$11.1 million (CAD$13.8 million) on August 31, 2017. The SBI Distribution will be reset for the first time on January 1, 2019 based on the percentage change in gross revenue with a collar of plus or minus 8%. The SBI Contribution is made up of US$75.0 million of permanent units (the "SBI Permanent Units") as well as US$10.0 million of redeemable units (the "SBI Redeemable Units"). The Redeemable Units can be redeemed at par by the issuer at any time up to the third anniversary following the closing of the SBI Contribution at SBI's discretion. After the third anniversary the Redeemable Units will have the same repurchase metrics as the Permanent Units. SBI is a management consulting firm specializing in sales and marketing that is dedicated to helping companies reach their sales objectives.

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

On September 1, 2017, Sequel redeemed all units for total proceeds of US$95.9 million (approximately CAD$121 million) (the "Sequel Redemption"). The Corporation received US$91.8 million (approximately CAD$114.8 million) at close, the remainder of the proceeds were received prior to December 31, 2017. The Corporation recognized a US$21.6 million (approximately CAD$26.6 million) gain through earnings as proceeds on redemption (US$95.9 million) exceeded total capital invested (US$74.1 million). The Corporation paid US$12.8 million (CAD$16.0 million) of taxes from the gain on redemption of the Sequel units during the year ended December 31, 2017. These taxes were a direct result of the proceeds on redemption of the Sequel units exceeding the cost basis of the units.

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

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

As of December 31, 2017 the Corporation has $27 million of promissory notes ($10 million first priority secured and $17 million of unsecured) outstanding. The smaller judgment also means that the majority of the short-term unsecured notes of $17 million will only be collected after the successful recapitalization or sale of the business, thus moved from current assets to non-current assets. Group SM is currently undergoing a full restructuring process, subsequent to the restructuring the Corporation believes there will be sufficient enterprise value to repay in full the $27 million of secured and unsecured promissory notes. See Promissory and Other Receivable table later in this note 5 for additional information on the valuation of these notes as at December 31, 2017.

Sandbox Acquisitions, LLC ("Sandbox") Additional Contribution

On September 20, 2017, the Corporation contributed an additional US$6.0 million (CAD$7.5 million) (Sandbox Tranche #2) into Sandbox LLC in exchange for an annualized distribution of US$0.9 million (CAD$1.1 million). The Sandbox Additional Contribution was used to fund an acquisition.

On December 15, 2017, the Corporation contributed an additional US$7.0 million (CA$9.0 million) (Sandbox Tranche #3) into Sandbox LLC in exchange for an annualized distribution of US$1.0 million (CAD$1.3 million). The Sandbox Additional Contribution was used to fund a performance earn out in connection with a prior acquisition.

Federal Resources Supply Company ("FED") Additional Contribution

On December 13, 2017, the Corporation contributed an additional US$13.5 million (CAD$17.4 million) (FED Tranche #3) into FED in exchange for an annualized distribution of US$1.8 million (CAD$2.3 million). The contribution was used to partially fund an acquisition.

Transactions closed in 2016

Redemption in LifeMark Health Limited Partnership ("LifeMark Health") Units

On March 4, 2016, 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% from Centric Health Corporation ("Centric"). The promissory note, along with all interest accrued and owing, was repaid in full by Centric on March 23, 2016. The Corporation realized a gain on redemption of $18.6 million that had accumulated through comprehensive income over the life of the investment.

Investment in Sandbox Acquisitions, LLC ("Sandbox")

On March 8, 2016, the Corporation holds 556 Class B units, 1,444 Class C units and 1 Class D unit in Sandbox Acquisitions, LLC along with 200,000 Preferred units in Sandbox Advertising Limited Partnership (collectively the "Sandbox units") acquired for US$22.0 million. The Sandbox units entitle the Corporation to receive an initial annual preferred distribution of US$3.3 million in priority to distributions on Sandbox's other LLC units. The Sandbox distribution will reset based on Net Revenue plus or minus 6%.

Investment in Providence Industries, LLC ("Providence").

On April 1, 2016 the Corporation, through its wholly-owned subsidiary Alaris USA Inc., collectively contributed US$30.0 million to Providence. The Corporation is entitled to receive an initial annual preferred distribution of US$4.5 million in priority to distributions on Providence's common shares. After the initial annual preferred distribution, the distribution is an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in Providence's same customer revenues for the previous fiscal year subject to a maximum increase or decrease of 5%. Distributions on the Providence units are receivable monthly.

Redemption of Solowave Design, LP ("Solowave") Units

On September 30, 2016 Solowave sold its children's play division which represented the majority of Solowave's earnings and resulted in the repurchase of all Alaris Preferred Units in Solowave for total proceeds to Alaris of $44.6 million. The Corporation recognized a gain of $1.5 million through earnings as proceeds on redemption ($44.6 million) exceeded the total capital invested ($42.5 million) plus costs.

Investment in Unify, LLC ("Unify") formerly Matisia, LLC

On October 10, 2016 Salaris USA Inc. announced a contribution of US$18.0 million to Matisia LLC in exchange for a total annual distribution of US$2.7 million. The Matisia contribution is comprised of US$12 million of permanent preferred units and US$6.0 million of redeemable preferred units. The Redeemable Matisia Units are expected to be short-term, and can be redeemed at any time at par by Matisia. After the initial annual preferred distribution, the distribution is an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in Matisia's same customer revenues for the previous fiscal year subject to a maximum increase or decrease of 5%.

Redemption of Mid-Atlantic Health Care, LLC ("MAHC") Units

On December 22, 2016, MAHC was sold to a third party which resulted in the repurchase of all Alaris Preferred Units in MAHC ("MAHC Repurchase") for total proceeds to Alaris of US$18.3 million, consisting of US$14.3 million on the redemption of the units and an additional US$4.0 million in owed distributions. The owed distributions represent the Corporation's entitlement under the partnership agreement to a minimum of three years of distributions from its initial investment date regardless if a redemption takes place. The US$4.0 million has been included with MACH's distribution revenue for the year ended December 31, 2016.

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 determined by calculating the discounted cash flow of the future expected distributions. Key assumptions used include the discount rate used in the calculation and estimates relating to changes in future distributions. For each individual partner, the Corporation considered a number of different discount rate factors including what industry they operated in, the size of the company, the health of the balance sheet and the ability of the historical earnings to cover the future distributions. This was supported by the historical yield of the original investment, current investing yields, and the current yield of Alaris' publicly traded shares and of other similar public companies. Future distributions have been discounted at rates ranging from 13.25% - 19.50%. The Corporation considers the maximum repurchase price in all fair value adjustments of investments. All of the investments except as noted below were valued on this basis at December 31, 2017 and December 31, 2016.

b) A liquidation value is used when there is concern around the collection of future distributions and the partner company is in default with the Corporation. The liquidation value is calculated using the formula specified in each of the Partnership agreements while considering an estimate of the current value of the private company to determine if there would be sufficient value to cover the liquidation amount. If not, the value is reduced to what the calculation estimates may be recovered (the liquidation value). The Corporation's investment in Agility and Group SM were valued on this basis at December 31, 2017 (December 31, 2016, KMH and Group SM).

From this analysis, management of the Corporation determined the fair value of the Investments at Fair Value and Loan Receivable for each individual Partner and below is a summary of the fair value adjustments in 2017 and 2016.

5. Investments (continued):

Investments at Fair Value *($ thousands)*	Opening Fair Value	Additions	Disposals	Foreign Exchange Adjustment	Fair Value Adjustment	Closing Fair Value
2017						
Lower Mainland Steel	$ 36,215	$ -	$ -	$ (422)	$ 125	$ 35,917
KMH	26,947	-	(26,947)	-	-	-
Labstat	49,199	-	-	-	12,125	61,324
Agility	26,965	-	-	(1,837)	1,004	26,133
SCR	30,488	-	-	-	(4,285)	26,203
Sequel	109,498	214	(101,466)	(8,246)	-	-
Group SM	40,217	-	-	-	(40,217)	-
Kimco	31,166	-	-	(2,122)	-	29,045
Planet Fitness	59,062	-	-	(4,021)	2,385	57,427
DNT	99,197	-	(2,694)	(6,569)	-	89,933
FED	75,680	16,947	-	(5,152)	3,314	90,788
Sandbox	30,538	16,342	-	(1,833)	1,469	46,517
Providence	40,950	-	-	(2,788)	2,498	40,661
Unify (formerly Matisia)	24,672	-	-	(1,680)	1,506	24,499
ccComm.	196	7,994	-	(249)	-	7,941
Accscient	-	26,473	-	(958)	-	25,514
SBI	-	107,270	-	(113)	-	107,157
Capitalized Costs	102	54	-	-	-	156
Investments at Fair Value - December 31, 2017	**$ 681,093**	**$ 175,293**	**$ (131,107)**	**$ (35,989)**	**$ (20,076)**	**$ 669,216**
2016						
LifeMark Health	$ 38,467	$ 27	$ (38,494)	$ -	$ -	$ -
Lower Mainland Steel	33,029	6,128	-	58	(3,000)	36,215
Solowave	50,474	-	(51,724)	-	1,250	-
KMH	35,001	-	(1,054)	-	(7,000)	26,947
Labstat	46,999	-	-	-	2,200	49,199
Agility	27,724	-	-	(759)	-	26,965
SCR	32,988	-	-	-	(2,500)	30,488
Sequel	108,904	-	-	(2,983)	3,577	109,498
Group SM	42,617	-	-	-	(2,400)	40,217
Kimco	45,352	2,731	-	(1,761)	(15,156)	31,166
Planet Fitness	58,275	-	-	(1,633)	2,421	59,062
DNT	97,843	-	-	(2,665)	4,020	99,197
FED	66,737	8,483	-	(1,243)	1,702	75,680
MAHC	19,522	243	(19,216)	(549)	-	-
Sandbox	177	30,296	-	66	-	30,538
Providence	-	38,129	-	2,822	-	40,950
Unify (formerly Matisia)	-	24,548	-	125	-	24,672
Capitalized Costs	-	298	-	-	-	298
Investments at Fair Value - December 31, 2016	**$ 704,109**	**$ 110,882**	**$ (110,488)**	**$ (8,524)**	**$ (14,886)**	**$ 681,093**

Royalties and Distributions:

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

Royalties and distributions:	Year ended December 31	
$ thousands	2017	2016
DNT	$ 14,216	$ 13,921
Sequel	12,174	15,937
FED	11,074	10,122
Planet Fitness	8,488	8,250
Labstat	7,940	5,500
Providence	5,843	4,420
Sandbox	4,909	3,507
LMS	4,746	4,653
SBI	4,642	-
Agility Health	3,972	4,074
Unify (formerly Matisia)	3,506	835
Accscient	1,926	-
End of the Roll	1,266	1,219
ccComm	883	-
SCR	600	3,008
Group SM	500	6,377
Solowave	-	5,160
Kimco	-	2,816
MAHC	-	7,958
LifeMark Health	-	730
Total Distributions	$ 86,684	$ 98,486
Other Income		
Interest	2,389	1,556
Total Revenue	**$ 89,073**	**$ 100,042**

Trade receivables are due mostly from three partner companies with two of them having an outstanding balance over 90 days. The Corporation continuously assesses the likelihood of collecting outstanding accounts receivable from each partner given their specific situation.

Trade & Other Receivables	31-Dec-17	31-Dec-16
$ thousands		
Group SM (1)	$ 544	$ 11,218
Agility (2)	2,973	2,382
Labstat (3)	4,239	2,468
Other Receivables	886	694
Balance at December 31, 2017	**$ 8,642**	**$ 16,762**

(1) Group SM includes unpaid interest on the $17 million unsecured promissory notes from January 2015 the full amount of which is expected to be collected in the next twelve months. Group SM is current on interest payments related to the $10 million of secured promissory notes and the Corporation collected $1.5 million of accrued interest on the $17 million unsecured promissory notes during the year ended December 31, 2017.

(2) Agility represents US$2.3 million (2016 – US$1.7 million). The Corporation collected all amounts due on February 28, 2018 as part of the redemption of the Agility units, see note 13.

(3) Labstat includes the cash flow sweep for 2017 distributions. The Corporation expects the collection of all Labstat receivables prior to April 30, 2018.

Should there be an adverse event in Labstat, or Group SM's businesses, collection could be negatively impacted.

Promissory Notes and Other Receivables:

As part of being a long-term partner with the companies the Corporation holds preferred interests in, from time to time the Corporation has offered alternative financing solutions to assist with short-term needs of the individual businesses. At December 31, 2017, the following is a summary of the outstanding promissory notes.

Promissory Notes and Other Receivables *($ thousands)*	Carrying Value		Notional Value	
Current	*31-Dec-17*	*31-Dec-16*	*31-Dec-17*	*31-Dec-16*
Group SM (3)	$ 10,000	$ -	$ 10,000	$ -
Labstat (2)	3,735	3,735	3,735	3,735
Agility (6)	1,255	-	1,255	-
SHS (4)	413	1,188	875	1,188
Total Current	$ 15,403	$ 4,922	$ 15,865	$ 4,922
Non-Current				
Group SM (3)	$ 11,600	$ 17,000	$ 17,000	$ 17,000
KMH (1)	-	3,500	-	3,500
Phoenix Secured Loan - US (1)	10,047	-	12,400	-
Phoenix Secured Loan - CDN (1)	3,784	-	8,033	-
Kimco (5)	6,586	4,391	10,607	5,994
Total Non-current	$ 32,017	$ 24,891	$ 48,041	$ 26,494
Balance at December 31, 2017	**$ 47,420**	**$ 29,814**	**$ 63,906**	**$ 31,417**

The Corporation expects and will continue to pursue recovery of the full notional value for all outstanding promissory notes. The differences between carrying value and notional value is due to the timing and uncertainty surrounding the collection of cash flows. See below footnotes for additional details on each promissory note.

(1) See the heading "Redemption of KMH Limited Partnership ("KMH") Units" earlier in note 5 for details of the $3.5 million outstanding at December 31, 2016. The Corporation expects to receive approximately $12.4 million of value at conculsion of the U.S. business sales process. The remainder of approximately $8.3 million will be collected over time and is secured by the former owners of KMH's capital assets. Due to the long- term collection horizon, the Corporation has discounted this portion of the outstanding secured loan using a five year term and a 5% discount rate (reflective of their previous secured lender). The note will be accreted to the face value of the note over its estimated five year life. The secured long term loans and the prior period promissory note are non-interest bearing. Due to the uncertainty surrounding the discounted cash flows the Corporation recorded an incremental reserve of $5.1 million for the year ended December 31, 2017.

(2) Labstat note (interest at 7%) is due July 2018, and is expected to be received in full.

(3) During the year ending December 31, 2017 the Corporation provided $10 million to Group SM as short term financing as they repaid a previous senior lender who had demanded repayment. The funds are being used by Group SM to fund working capital in lieu of a senior revolving credit facility. The first $10 million is secured against outstanding accounts receivable and has a first lien on the business and bears interest at 10% per annum. In addition, Group SM has a $17 million unsecured demand note (interest at 8%) outstanding, subordinate to a third party loan. The collection of both the secured and non secured notes are expected at the completion of the ongoing restructuring process. While the process is expected to be resolved in the next twelve months, due to the uncertainty surrounding this timing they have been classified as long-term. Due to the uncertainty of timing of future repayments of the $17 million unsecured promissory note, the Corporation recorded a reserve of $5.4 million. The allowance is recorded as a bad debt expense. The carrying value of the $17 million unsecured promissory note was classified as current as of December 31, 2016. Should there be adverse developments in the restructuring process, collection of a portion up to the entire $17 million of unsecured notes could be impacted.

(4) SHS Services Management, LP ("SHS") note is non-interest bearing and secured against certain assets of the SHS business. The Corporation received partial settlement on the SHS note of $0.3 million in March 2016 and an additional $0.3 million in July 2017. With Sears Canada Inc. formally entering bankruptcy the Corporation negotiated a payment of $0.4 million for the remainder of the loan to avoid entering a legal process. The difference between the carrying value ($0.8 million) and proceeds of $0.4 million was recorded as a bad debt expense during the period. Subsequent to December 31, 2017 the Corporation received the $0.4 million outstanding.

(5) Accrued distributions totaling US$4.5 million were reclassified to long-term receivables during 2016. Upon reclassification, the amounts due were discounted to reflect the long-term collection horizon. The carrying value at December 31, 2017 reflects that the Corporation expects to receive these amounts over a five year period. The company recorded US$0.1 million of accretion during the year ending December 31, 2017. In addition, the Corporation contributed an additional US$4 million during the year ended December 31, 2017 to provide Kimco with balance sheet flexibility to grow the business under new management. Kimco is currently paying monthly interest of 8% on the US$4.0 million promissory note. Due to the uncertainty surrounding the timing around collection, the Corporation recorded an incremental reserve of $2.6 million for the year ended December 31, 2017.

(6) The Corporation issued a US$1 million promissory note to Agility during the year ended December 31, 2017 due to the timing of payments and collections causing short term liquidity constraints. Subsequent to December 31, 2017 the Corpration issed an additional US$0.5 million to fund working capital. The note is payable on demand, bears interest at 10% per annum and was collected February 28, 2018 as part of the redemption of the Agility units.

Should there be an adverse event to any of the above businesses, collection could be negatively impacted.

The Corporation recorded bad debt expense of $23.4 million for the year ended December 31, 2017 (December 31, 2016 - $2.5 million). This consisted of $10.3 million of write offs as distributions accrued but not received from Group SM ($9.8 million) and a reduction of the SHS promissory note ($0.5 million) will not be received. The Corporation also recorded a $13.2 million reserve on outstanding promissory notes with Group SM ($5.4 million), Phoenix ($5.1 million) and Kimco ($2.6 million) as the probability of receiving the entire amount outstanding is not assured. The allowance is recorded as a bad debt expense and will be recovered from the respective strategic processes and recapitalization if the proceeds are in excess of the Corporation's carrying value. For the year ended December 31, 2016 the Corporation recorded a bad debt expense on KMH interest ($0.9 million) and the outstanding promissory note ($1.5 million).

Bad Debt Expense and Reserve *($ thousands)*	31-Dec-17	31-Dec-16
Write Offs		
SHS	$ 463	$ -
Group SM	9,813	-
Total Write offs	10,276	-
Reserve		
Group SM - Unsecured Promissory Note	$ 5,400	$ -
Phoenix Secured Loan - US (1)	2,353	-
Phoenix Secured Loan - CDN (1)	2,780	-
KMH	-	2,442
Kimco	2,621	-
Total Reserve	$ 13,154	$ 2,442
Total Bad Debt Expense	**$ 23,430**	**$ 2,442**

Intangible Assets:

The Corporation holds intangible assets in End of the Roll of $6.1 million (December 31, 2016 - $6.2 million), net of accumulated amortization of $1.2 million (December 31, 2016 - $1.1 million).

6. **Share capital:**

Issued Common Shares	Number of Shares	Amount ($)
	thousands	*$ thousands*
Balance at January 1, 2016	36,303	$ 617,627
Issued after employee vesting	1	-
Cashless options exercised in the year	33	-
Fair value of options exercised in the year	-	266
Balance at December 31, 2016	36,336	$ 617,893
Issued after employee / director vesting	109	2,512
Cashless options exercised in the year	36	-
Fair value of options exercised in the year	-	438
Balance at December 31, 2017	**36,481**	**$ 620,842**

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

Weighted Average Shares Outstanding	Year ended December 31	
thousands	2017	2016
Weighted average shares outstanding, basic	36,447	36,336
Effect of outstanding options	15	74
Effect of outstanding RSUs	292	302
Weighted average shares outstanding, fully diluted	36,754	36,711

1,723,160 options were excluded from the calculation as they were anti-dilutive at December 31, 2017 (December 31, 2016 - 669,799).

Dividends

The following dividends were declared and paid in the month following by the Corporation:
In each month of 2017, the Corporation declared a dividend of $0.135 per common share ($1.62 per share and $59.0 million in aggregate). In each month of 2016, the Corporation declared a dividend of $0.135 per common share ($1.62 per share and $58.8 million in aggregate).

7. **Loans and borrowings:**

As at December 31, 2017 the Corporation had a $200 million credit facility with a syndicate of Canadian chartered banks, the facility has a four year term with a maturity date in September 2021. The interest rate is based on a combination of the CAD Prime Rate ("Prime"), Bankers' Acceptances ("BA"), US Base Rate ("USBR") and LIBOR. When Funded Debt to Contract EBITDA is below 2.25:1, Prime and USBRs are plus 2.25% and BAs and LIBOR are plus 3.25%. When Funded Debt to Contract EBITDA is above 2.25:1, Prime and USBRs are plus 2.75% and BAs and LIBOR are plus 3.75%. The Corporation realized a blended interest rate of 5.3% for the year ended December 31, 2017. At December 31, 2017, the facility was $173.5 million drawn (December 31, 2016 - $99.4 million).

At December 31, 2017, the Corporation met all of its covenants as required by the facility. Those covenants include a maximum funded debt to contracted EBITDA of 2.5:1 (actual ratio is 1.97:1 at December 31, 2017); minimum tangible net worth of $450.0 million (actual amount is $598.4 million at December 31, 2017); and a minimum fixed charge coverage ratio of 1:1 (actual ratio is 1.07:1 at December 31, 2017).

The Corporation had US$112.7 million of USD denominated debt as of December 31, 2017 (December 31, 2016 US$53.0 million), subsequent to December 31, 2017 the Corporation repaid US$26.5 million of USD denominated debt. The Corporation began funding USD transactions with USD debt in 2016.

Debt Continuity	Denominated Debt	
$ thousands	$USD	$CAD
Balance at December 31, 2016		**$ 99,383**
Senior debt advance (Accscient)	13,000	17,190
Senior debt advance (Kimco Prom Note)	-	4,000
Senior debt advance (SBI)	85,000	106,232
Senior debt advance (ccComm)	2,200	2,750
Senior debt repayment (Sequel, net of tax payment)	(82,500)	(103,414)
Senior debt advance (Sandbox Tranche #2)	6,000	7,393
Senior debt advance (FED Tranche #3)	14,000	17,780
Senior debt advance (Sandbox Tranche #3)	7,000	9,004
Senior debt advance (Heritage)	15,000	19,317
Unrealized FX (gain) / loss on USD denominated debt		(6,169)
Balance at December 31, 2017		**$ 173,464**

8. Share-based payments:

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

The RSU Plan will settle in voting common shares which may be issued from treasury or purchased on the Toronto Stock Exchange. The Corporation has reserved 455,551 and issued 291,651 RSUs to management and Directors as of December 31, 2017. The RSUs issued to directors (93,605) vest over a three year period. The RSUs issued to management (198,046) do not vest until the end of a three year period (119,000 in July 2018, 47,080 in July 2019, and 31,966 in October 2020) and are subject to certain performance conditions relating to operating cash flow per share. The stock-based compensation expense relating to the RSU Plan is based on the issue price at the time of grant and management's estimate of the future performance conditions and will be amortized over the thirty-six month vesting period.

The Corporation has reserved 2,574,073 and issued 2,242,364 options as of December 31, 2017. The options outstanding at December 31, 2017, have an exercise price in the range of $20.60 to $33.87, a weighted average exercise price of $25.56 (2016 – $26.94) and a weighted average contractual life of 2.97 years (2016 – 1.97 years).

For the year ended December 31, 2017 the Corporation incurred stock-based compensation expenses of $3.4 million (2016 - $4.4 million) which includes: $2.1 million (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2016 - $3.2 million); and $1.2 million (non-cash expense) for the amortization of the fair value of outstanding stock options (2016 - $1.1 million).

Options Summary	Weighted Avg Exercise Price 2017	Number of Options - 2017	Weighted Avg Exercise Price 2016	Number of Options - 2016
Outstanding at January 1	$26.94	1,726,182	$26.93	1,966,484
Exercised during the year	$19.40	(197,525)	$15.76	(70,500)
Expired during the year	$23.63	(356,511)	$0.00	-
Forfeited during the year	$0.00	-	$31.50	(169,802)
Granted during the year	$21.56	1,070,218	$0.00	-
Outstanding at December 31	$25.56	2,242,364	$26.94	1,726,182
Exercisable at December 31	$30.38	865,788	$17.19	1,114,662

The following table summarizes the options outstanding and exercisable as at December 31, 2017:

Exercise price	Number outstanding		Weighted average remaining life (years)		Number exercisable	
	2017	2016	2017	2016	2017	2016
$16.87	N/A	122,525	N/A	0.10	N/A	122,525
$23.53	N/A	428,011	N/A	0.67	N/A	428,011
$33.87	407,560	411,060	0.56	1.56	407,560	308,295
$26.79	45,000	45,000	1.05	2.05	45,000	22,500
$31.15	193,739	193,739	1.59	2.59	145,304	96,870
$33.06	20,000	20,000	1.70	2.70	15,000	10,000
$24.78	505,847	505,847	2.57	3.57	252,924	126,462
$22.47	521,014	N/A	4.07	N/A	-	N/A
$22.33	30,000	N/A	4.20	N/A	-	N/A
$20.60	519,204	N/A	4.78	N/A	-	N/A
Total	2,242,364	1,726,182	2.97	1.97	865,788	1,114,663

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

Issue Date	Dividend Yield	Expected Volatility	Risk Free Rate of Return	Expected Life	Weighted Average Value
Jan-17	7.17%	26.38%	1.14%	4.325	$2.05
Mar-17	7.20%	27.45%	1.10%	4.325	$2.19
Oct-17	7.69%	27.75%	1.57%	4.325	$2.02

During the year ending December 31, 2017, the Corporation issued 31,966 RSU's and 1,070,218 stock options with an average exercise price of $21.56. During the year ending December 31, 2017, the Corporation issued 35,711 shares as a result of the exercise of options and 109,479 shares as a result of vested RSUs.

9. Income taxes:

The Corporation's consolidated effective tax rate for the year ended December 31, 2017 was 26.32% (year ended December 31, 2016 – 26.29%). The change in the Corporation's consolidated effective tax rate from 2016 was caused by income being allocated to different provinces than in the prior year.

Income tax expense is calculated by using the combined federal and provincial and state statutory income tax rates. The provision for income tax (deferred and current) differs from that which would be expected by applying statutory rates. A reconciliation of the difference is as follows:

Income Tax Expense	2017	2016
Earnings before income taxes	$ 22,155	$ 86,142
Combined federal and provincial statutory income tax rate	26.32%	26.29%
Expected income tax provision	$ 5,831	$ 22,647
Rate differences of foreign jurisdictions	(249)	(5,151)
Impact of change in US federal tax rates	(5,975)	-
Non-taxable portion of capital gains	8,649	(743)
Non-deductible expense and other	2,620	1,234
Prior period adjustment	(602)	1,603
Balance at December 31, 2017	**$ 10,274**	**$ 19,589**

Cash taxes paid during the year were $26.6 million ($7.9 million in 2016) which includes $16.0 million of cash taxes related to the gain on redemption of Sequel units.

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

Deferred income tax assets (liabilities):	2017	2016
Equipment	$ (2)	$ (2)
Share issue costs	1,035	2,164
Intangible assets	(1,681)	(1,691)
Investment tax credits	(1,500)	(2,263)
Preferred partnership units	(8,523)	(17,995)
Partnership deferral	6,061	50
Investment in sub or other items	691	4,105
Derivatives	(1,626)	(3,006)
Foreign exchange on loan receivable	(205)	(552)
Distributions to be taxed in future years	(2,442)	(3,268)
Balance at December 31, 2017	**$ (8,192)**	**$ (22,458)**

As at December 31, 2017, the Corporation has unused federal investment tax credits which expire from time to time as follows:

Unused Federal Investment Tax Credits	2017
2022	$ 468
2023	1,841
2024	648
Balance at December 31, 2017	**$ 2,957**

Movement in deferred tax balances during the year	Deferred Income Taxes
Balance at January 1, 2016	**$ (19,491)**
Recognized in profit and loss	(12,484)
Reduction to investment tax credit	3,659
Recognized in other comprehensive income	5,613
Currency translation and other	245
Balance at December 31, 2016	**(22,458)**
Recognized in profit and loss	11,815
Reduction to investment tax credit	1,898
Recognized in other comprehensive income	(984)
Currency translation and other	1,537
Balance at December 31, 2017	**$ (8,192)**

In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009. The Corporation has since received notices of reassessment from the Canada Revenue Agency in respect of its taxation years ended December 31, 2009 through December 31, 2016 (collectively the "Reassessments"). Pursuant to the Reassessments, the deduction of approximately $121 million of non-capital losses and utilization of $5.2 million in investment tax credits by the Corporation was denied, resulting in reassessed taxes and

interest of approximately $44.4 million. Subsequent to filing the notice of objection for the July 14, 2009 taxation year, Alaris received an additional proposal from the CRA pursuant to which the CRA is proposing to apply the general anti avoidance rule to deny the use of non-capital losses, accumulated scientific research and experimental development expenditures and investment tax credits. The proposal does not impact the Corporation's previously disclosed assessment of the total potential tax liability (including interest) or the deposits required to be paid in order to dispute the CRA's reassessments. The Corporation has received legal advice that it should be entitled to deduct the non-capital losses and as such, the Corporation remains of the opinion that all tax filings to date were filed correctly and that it will be successful in appealing such Reassessments. The Corporation intends to continue to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amounts as a deposit to the Canada Revenue Agency. The Corporation has paid a total of $19.3 million in deposits to the CRA relating to the Reassessments to date, including $3.0 million deposited in 2017. 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 in respect of the 2017 taxation year, on the same basis. The carrying values of the remaining ITC's of $3.0 million at December 31, 2017 and the ITC's claimed in 2017 of $3.5 million are at risk should the Corporation be unsuccessful in defending its position. The Corporation anticipates that legal proceedings through the CRA and the courts will take considerable time to resolve and the payment of the deposits, and any taxes, interest or penalties owing will not materially impact the Corporation's payout ratio.

The Corporation firmly believes it will be successful in defending its position and therefore, any current or future deposit paid to the CRA would be refunded, plus interest. The Corporation will continue to file its tax returns by claiming the remaining available investment tax credits in subsequent tax filings.

Tax Year	ITCs Applied	Losses Applied	Estimated tax and interest
July 2009		$ 10,532	$ 4,310
December 2009		1,916	748
December 2010		14,646	5,486
December 2011		14,992	5,113
December 2012		16,774	4,462
December 2013		22,642	6,519
December 2014		29,153	8,493
December 2015	2,315	10,560	4,417
December 2016	2,905	-	4,836
Balance at December 31, 2017	**$ 5,220**	**$ 121,215**	**$ 44,384**

On December 2017, the United States government enacted the tax Cuts and Jobs Act ("US Tax Reform") with the majority of the legislation being effective January 1, 2018. The impact of this legislation on the Corporation's 2017 financial statements is a reduction in the deferred income tax liability of $6 million as a result of the reduction in the federal income tax rate from 35% to 21%.

10. Fair Value of Financial Instruments:

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

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

The following items shown on the consolidated statement of financial position as at December 31, 2017 and December 31, 2016, are measured at fair value on a recurring basis using level 2 or level 3 inputs. Discount rates and estimates used to determine changes in future distributions from each investment are the primary inputs in the fair value models and are generally unobservable. Accordingly, these fair value measures are classified as level 3. There were no transfers between level 2 or level 3 classified assets and liabilities during the year ended December 31, 2017.

Fair value classification *($ thousands)*	Level 1	Level 2	Level 3	Total
31-Dec-17				
Foreign exchange contracts	$ -	$ 1,430	$ -	$ 1,430
Investments at fair value	-	-	669,216	669,216
Total at December 31, 2017	**$ -**	**$ 1,430**	**$ 669,216**	**$ 670,646**
31-Dec-16	Level 1	Level 2	Level 3	Total
Foreign exchange contracts	$ -	$ (712)	$ -	$ (712)
Investments at fair value	-	-	681,093	681,093
Total at December 31, 2016	$ -	$ (712)	$ 681,093	$ 680,381

Financial instruments whose fair value is equivalent to its carrying value are omitted from the above table (these include: cash and cash equivalents, trade and other receivables, promissory note receivable, accounts payable and accrued liabilities, loans and borrowings).

The Corporation purchases forward exchange rate contracts to match expected after tax distributions in US dollars on a rolling 12 month basis and also for between 25% to 50% of the expected distributions on a rolling 12 to 24 month basis. The notional value of outstanding foreign exchange contracts is US$33.6 million (US$49.1 million as of December 31, 2016) with maturity dates between January 2018 and October 2019.

11. Commitments:

The Corporation's annual commitments under its current office lease are as follows:

Commitments	31-Dec-17
2018	421
2019	432
2020	216
Total Commitments	**$ 1,068**

12. Related Parties

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:

Key Management Personnel	2017	2016
Base salaries and benefits	$ 854	$ 876
Bonus	407	519
Non cash stock-based compensation	2,033	520
Total for year ended December 31, 2017	**$ 3,294**	**$ 1,916**

13. **Subsequent Events**

Increase in Credit Facility

Subsequent to December 31, 2017, the Corporation received an increase in their revolving credit facility which included (i) an increase in capacity to $280 million ($200 million as of December 31, 2017); (ii) an increase in the accordion facility to $70 million ($50 million as of December 31, 2017). The maximum senior debt to contracted EBITDA was increased to 2.5:1 which can extend to 3:1 for a period of 90 days (previously 1.75x with an extension to 2.25x, this amendment was effective for the quarter ending December 31, 2017). The tangible net worth, fixed charge coverage ratio covenants, interest rate spread, and standby fees remained consistent with the prior agreement.

Investment in Heritage Restoration, LLC ("Heritage")

On January 23, 2018, the Corporation entered into subscription and operating agreements with Heritage Restoration, Holdings, LLC ("Heritage"), pursuant to which the Corporation invested US$15.0 million ("Heritage Contribution") in exchange for preferred units in Heritage (the "Heritage Units"). The Corporation is entitled to an annual distribution of US$2.25 million ("Heritage Distribution") for the first full year following the transaction, which equates to an initial yield of 15%. US$3.0 million of the Heritage Units are redeemable at par at any time. The performance metric dictating the annual percentage change in the Heritage Distribution is gross margin, subject to a 6% collar and will reset for the first time on January 1, 2019. The Heritage Contribution was used to fund the management buyout of the existing shareholder.

Agility

Subsequent to December 31, 2017, the Corporation successfully redeemed all of its units in Agility as a result of the sale of Agility to a third party. Gross proceeds to Alaris from the Agility Sale consist of: (i) US$22.2 million for the preferred units Alaris holds in Agility LLC, which includes a premium of US$2.1 million over Alaris' original cost of US$20.1 million (currently held at a fair value of $20.0 million); (ii) US$2.9 million for all unpaid distributions up to February 28, 2018; and (iii) US$1.6 million for a loan outstanding, including all principal and interest accrued on such loan. US$1.5 million of the Repurchase Price to be paid to Alaris will be placed in escrow for 18 months to satisfy indemnification obligations under the transaction. Following the escrow period any remaining escrowed funds will be paid to Alaris. Total proceeds received by the Corporation went toward debt reduction of US$26.5 million (approximately CAD$34.0 million) against the CAD$173.5 million outstanding at December 31, 2017.