Consolidated Financial Statements of

ALARIS ROYALTY CORP.

Audited financial statements for the years ended

December 31, 2019 and 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alaris Royalty Corp.

Opinion

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

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

Hereinafter referred to as the "financial statements".

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

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

Other Information

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

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

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

March 5, 2020

Alaris Royalty Corp.

Consolidated statements of financial position

$ thousands	Note	31-Dec 2019	31-Dec 2018
Assets			
Cash and cash equivalents		$ 17,104	$ 22,774
Prepayments		1,509	2,181
Foreign exchange contracts	12	555	-
Trade and other receivables	5	1,226	924
Income taxes receivable		4,205	1,484
Investment tax credit receivable	10	1,032	2,798
Assets acquired held for sale	11	97,173	-
Promissory notes receivable	5	6,580	23,252
Current Assets		$ 129,384	$ 53,413
Promissory notes and other receivables	5	19,663	26,959
Deposits	10	20,206	20,206
Property and equipment	3(m)	1,053	344
Investments	5	881,037	790,175
Investment tax credit receivable	10	2,243	-
Deferred income taxes	10	986	281
Non-current assets		$ 925,188	$ 837,965
Total Assets		**$ 1,054,572**	**$ 891,378**
Liabilities			
Accounts payable and accrued liabilities		$ 2,713	$ 3,670
Dividends payable		5,047	5,013
Foreign exchange contracts	12	-	1,333
Liabilities acquired held for sale	11	60,297	-
Office Lease	3(m)	837	-
Income tax payable		384	1,257
Current Liabilities		$ 69,278	$ 11,273
Deferred income taxes	10	4,715	16,137
Loans and borrowings	7	285,193	228,103
Convertible debenture	8	90,939	-
Non-current liabilities		$ 380,847	$ 244,240
Total Liabilities		**$ 450,125**	**$ 255,513**
Equity			
Share capital	6	$ 625,313	$ 621,082
Equity component of convertible debenture	8	4,059	-
Equity reserve	9	14,763	14,679
Translation reserve		17,076	32,725
Retained earnings / (deficit)		(56,764)	(32,621)
Total Equity		**$ 604,447**	**$ 635,865**
Total Liabilities and Equity		**$ 1,054,572**	**$ 891,378**

Commitments	13
Related Parties	14
Subsequent events	11, 15

On behalf of the Board:

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

Alaris Royalty Corp.

Consolidated statements of comprehensive income

$ thousands except per share amounts	Note	Year ended December 31 2019	2018
Revenues			
Distributions	5	$ 111,324	$ 97,970
Interest	5	4,644	2,109
Total Revenue		**$ 115,968**	**$ 100,079**
Other income / (loss)			
Net realized gains from investments	5	$ 11,724	$ 15,667
Net unrealized gain / (loss) of investments at fair value	5	(11,304)	4,014
Loss on assets held for sale	11	(45,883)	-
Realized losses on foreign exchange contracts		(1,012)	(73)
Total other income / (loss)		**$ (46,475)**	**$ 19,608**
Salaries and benefits		$ 4,978	$ 5,382
Corporate and office		3,092	3,411
Legal and accounting fees		2,648	3,333
Transaction diligence costs		2,754	3,957
Non-cash stock-based compensation	9	4,315	2,861
Bad debt expense / (recovery)	5	(2,018)	25,974
Depreciation and amortization		384	214
Total operating expenses		16,153	45,132
Earnings before the undernoted		**$ 53,340**	**$ 74,555**
Finance costs	7, 8	19,294	8,858
Unrealized (gain) / loss on foreign exchange contracts		(1,888)	2,792
Unrealized foreign exchange (gain) / loss		7,957	(13,327)
Earnings before taxes		**$ 27,977**	**$ 76,232**
Current income tax expense	10	5,347	8,723
Deferred income tax expense / (recovery)	10	(13,628)	6,713
Total income tax expense / (recovery)		(8,281)	15,436
Earnings		**$ 36,258**	**$ 60,796**
Other comprehensive income			
Foreign currency translation differences		(15,649)	26,958
Total comprehensive income		**$ 20,609**	**$ 87,754**
Earnings per share			
Basic		$ 0.99	$ 1.67
Fully diluted		$ 0.98	$ 1.65
Weighted average shares outstanding			
Basic	6	36,597	36,483
Fully Diluted	6	36,889	36,765

Alaris Royalty Corp.
Consolidated statement of changes in equity
For the year ended December 31, 2018

$ thousands	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings / (Deficit)	Total Equity
Balance at January 1, 2018		$ 620,842	$ 12,058	$ (17,036)	$ 5,767	$ (17,087)	$ 604,544
Earnings for the year		-	-	-	-	60,796	60,796
Other comprehensive income / (loss)							
Foreign currency translation differences		-	-	-	26,958	-	26,958
Total comprehensive income / (loss) for the year		$ -	$ -	$ -	$ 26,958	$ 60,796	$ 87,754
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	9	$ -	$ 2,861	$ -	$ -	$ -	$ 2,861
Dividends to shareholders	6	-	-	-	-	(59,294)	(59,294)
Fair value reserve transferred to opening retained earnings		-	-	17,036	-	(17,036)	-
RSU vested in the period		240	(240)	-	-	-	-
Total transactions with Shareholders of the Company		240	2,621	17,036	-	(76,330)	(56,433)
Balance at December 31, 2018		**$ 621,082**	**$ 14,679**	**$ -**	**$ 32,725**	**$ (32,621)**	**$ 635,865**

Alaris Royalty Corp.

Consolidated statement of changes in equity

For the year ended December 31, 2019

$ thousands	Notes	Share Capital	Convertible Debenture	Equity Reserve	Translation Reserve	Retained Earnings / (Deficit)	Total Equity
Balance at January 1, 2019		$ 621,082	$ -	$ 14,679	$ 32,725	$ (32,621)	$ 635,865
Earnings for the year		-	-	-	-	36,258	36,258
Other comprehensive loss							
Foreign currency translation differences		-	-	-	(15,649)	-	(15,649)
Total comprehensive income / (loss) for the year		$ -	$ -	$ -	$ (15,649)	$ 36,258	$ 20,609
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	9	$ -	$ -	$ 4,315	$ -	$ -	$ 4,315
Dividends to shareholders	6	-	-	-	-	(60,401)	(60,401)
Equity component of convertible debenture, net of deferred tax of $1,441	8	-	4,059	-	-	-	4,059
Shares issued pursuant to RSU vesting in the year		4,231	-	(4,231)	-	-	-
Total transactions with Shareholders of the Company		4,231	4,059	84	-	(60,401)	(52,027)
Balance at December 31, 2019		**$ 625,313**	**$ 4,059**	**$ 14,763**	**$ 17,076**	**$ (56,764)**	**$ 604,447**

Alaris Royalty Corp.

Consolidated statements of cash flows

$ thousands	Notes	Year ended December 31 2019	2018
Cash flows from operating activities			
Earnings for the year		$ 36,258	$ 60,796
Adjustments for:			
Finance costs	7, 8	19,294	8,858
Deferred income tax expense / (recovery)		(13,628)	6,713
Depreciation and amortization		384	214
Bad debt expense	5	-	25,974
Loss on assets held for sale	11	45,883	-
Net realized gains from investments	5	(11,724)	(15,667)
Net unrealized (gain) / loss of investments at fair value	5	11,304	(4,014)
Unrealized (gain) / loss on foreign exchange contracts		(1,888)	2,792
Unrealized foreign exchange (gain) / loss		7,957	(13,327)
Transaction diligence costs		2,754	3,957
Non-cash stock-based compensation	9	4,315	2,861
Change in:			
- trade and other receivables		(4,428)	7,175
- income tax receivable / payable		(3,594)	(815)
- prepayments		672	(312)
- accounts payable, accrued liabilities		(957)	1,963
Cash generated from operating activities		$ 92,602	$ 87,168
Cash interest paid	7, 8	(17,824)	(8,858)
Net cash from operating activities		$ 74,778	$ 78,310
Cash flows from investing activities			
Acquisition of investments	5	$ (193,357)	$ (184,878)
Transaction diligence costs		(2,754)	(3,957)
Proceeds from partner redemptions	5	20,089	141,806
Promissory notes issued	5	(8,823)	(36,154)
Promissory notes repaid	5	4,916	11,923
Net cash used in investing activities		$ (179,929)	$ (71,260)
Cash flows from financing activities			
Repayment of loans and borrowings	7	$ (68,030)	$ (161,486)
Proceeds from loans and borrowings	7	134,005	201,721
Proceeds from convertible debenture, net of fees	8	95,527	-
Dividends paid	6	(60,367)	(59,203)
Office lease payments		(253)	-
Deposits with CRA	10	-	(11)
Net cash from / (used in) financing activities		$ 100,883	$ (18,979)
Net decrease in cash and cash equivalents		$ (4,269)	$ (11,929)
Impact of foreign exchange on cash balances		(1,401)	(772)
Cash and cash equivalents, Beginning of year		22,774	35,475
Cash and cash equivalents, End of year		$ 17,104	$ 22,774
Cash taxes paid		$ 8,759	$ 10,494

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, 2019 comprise Alaris Royalty Corp. and its subsidiaries (together referred to as the "Corporation"). The Corporation's American investments are made through two Delaware Corporations, Alaris USA Inc. ("Alaris USA") and Salaris USA Royalty Inc. ("Salaris USA"). The Corporation's operations consist primarily of investments in private operating entities, typically in the form of preferred limited partnership interests, preferred interest in limited liability corporations in the United States or loans receivable. The Corporation also has a wholly-owned subsidiary in the Netherlands, Alaris Cooperatief U.A. ("Alaris Cooperatief").

2. Statement of compliance:

(a) Statement of compliance

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

These consolidated financial statements were approved by the Board of Directors on March 5, 2020.

(b) Basis of measurement

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

- Investments at fair value are measured at fair value with changes in fair value recorded in earnings (see Note 5).
- Derivative financial instruments are measured at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

Key judgments

A key judgment relates to the consideration of control, joint control and significant influence in each of our investments. The Corporation has agreements with various partners and these agreements include not only clauses as to distributions but also various protective rights. The Corporation has assessed these rights under IFRS 10 and 11 and determined that consolidation is not appropriate. In a number of our investments we have protective rights, which provides the Corporation the right to demand repayment of our investment if it is in default of the terms of our operating agreement. Failure to satisfy the demand for repayment can lead to the Corporation's rights to allow it to control the investment.

Key estimates used in discounted cash flow projections

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

Collectability of amounts receivable

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

Income taxes

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

In 2018, the U.S. Treasury and the Internal Revenue Service issued proposed regulations relating to the 2017 U.S. Tax Reform which provided administrative guidance and clarified certain aspects of the new laws. The proposed regulations are complex and comprehensive, and considerable uncertainty continues to exist until the final regulations are released, which is expected to occur in early 2020. The Corporation continues to review, analyze and assess the impact these new proposed regulations could have on the Company as the impact could be material.

Business Combination

Estimates are made in determining the fair value of assets acquired and liabilities assumed in a business combination. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities, intangible assets in the purchase price equation.

3. Significant accounting policies:

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

(b) Revenue recognition

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

(c) Financial instruments

Recognition and Initial Measurement

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

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

Classification and Subsequent Measurement

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

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

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

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

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

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

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

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

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

Business Model Assessment

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

Solely Payments of Principal and Interest Assessment

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

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

Financial Liabilities

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

Derivatives

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

IFRS 9: Financial Instruments

IFRS 9 is a single approach to determine whether a financial asset is measured at amortized cost or fair value. 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 IFRS 9 measurement categories for financial assets include FVTPL, fair value through other comprehensive income and amortized cost. See table below:

	IFRS 9
Financial Instrument	**Measurement**
Cash and cash Equivalents	Amortized cost
Trade and other receivables	Amortized cost
Foreign exchange contracts	FVTPL
Promissory notes receivable	Amortized cost
Investments	FVTPL or amortized cost
Accounts payable and accrued liabilities	Amortized cost
Loans and borrowings	Amortized cost

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.

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

Compound Financial Instruments:

The Corporation's compound financial instrument is comprised of its convertible debentures that can be converted to common shares at the option of the holder. The number of shares to be issued is fixed and does not vary with changes in fair value. The liability component of a convertible debenture is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between fair value of the compound financial instrument as a whole and the fair value of the liability component.

Subsequent to initial recognition, the liability component of a compound instrument is measured at amortized cost using the effective interest method. The equity component of the compound instrument is not re-measured subsequent to initial recognition. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

(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) Impairment

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

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) New standards

The Corporation adopted IFRS 16 Leases effective January 1, 2019. IFRS 16 introduces a single, on balance sheet accounting model for lessees. As a result, the Corporation has recognized a right of use asset representing its rights to use underlying assets and lease liabilities representing its obligations to make lease payments.

The Corporation applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Corporation determined at contract inception whether an arrangement was or contained a lease under IFRIC 4, Determining Whether an Arrangement Contains a Lease. The Corporation now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains a lease if the contract coveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Corporation elected to apply the practical expedient to grandfather the assessment of which contracts are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

The Corporation has also elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

Significant Accounting Policies

The Corporation recognizes a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost and subsequently measured at cost less any accumulated depreciation and impairment losses.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's incremental borrowing rate. The Corporation uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently measured at amortized cost.

Transition

Previously, the Corporation classified property leases as operating leases under IAS 17. This included the Corporation's office lease. At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Corporation's incremental borrowing rate as at January 1, 2019. The result is the recognition of a lease liability at January 1, 2019 of $0.7 million. A corresponding right of use asset has been recorded at an amount equal to the lease liability and is depreciated over the remaining term of the lease. The right of use asset is included in Property & equipment. The adoption of IFRS 16 had no impact on opening retained earnings.

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition.

Transaction costs and other acquisition costs that the Corporation incurs in connection with a business combination are expensed as incurred.

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
- interest rate 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 Risk Management 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 Risk Management 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, 2019 and 2018.

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 metric. Accordingly, to the extent that the financial performance of the investment declines in respect of the relevant performance metric, cash payments to the Corporation will decline. Portfolio investment agreements allow for the repayment of investments at the option of the portfolio entity, and such repayment could affect future cash flows.

The Corporation is exposed to credit related losses on current and future amounts receivable pursuant to investment agreements and outstanding promissory notes. In the event of non-performance by partners, future distributions from 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. 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 $17.1 million at December 31, 2019 (December 31, 2018 - $22.8 million), which represents its maximum credit exposure on these assets.

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

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 $330 million, four year revolving credit facility, and has $285.2 million balance drawn at December 31, 2019 ($228.1 million at December 31, 2018). As at December 31, 2019 the Corporation has the following financial liabilities that mature as follows:

31-Dec-19	Total	0-6 Months	6 mo – 1 yr	1 – 2 years	Year 3 and Thereafter
Accounts payable and accrued liabilities	$ (2,713)	$ (2,713)	$-	$-	$-
Dividends payable	(5,047)	(5,047)	-	-	-
Office Lease	(837)	(126)	(61)	(182)	(468)
Convertible debenture	(100,000)	-	-	-	(100,000)
Loans and borrowings	(285,193)	-	-	(285,193)	-
Total	$ (393,790)	$ (7,886)	$ (61)	$ (285,375)	$ (100,468)

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 denominated in USD, the Corporation has exposure to foreign currency exchange rate risk. The Corporation purchases forward exchange rate contracts to match expected dividends and expenditures in Canadian dollars on a rolling 12 month basis and also for between 25% to 50% of the expected dividends and expenditures in Canadian dollars on a rolling 12 to 24 month basis (total current notional value of US$41.9 million for next 24 months). As at December 31, 2019, if the US foreign exchange rate had been $0.01 lower with all other variables held constant, earnings for the year would have been approximately $0.1 million higher. An equal and opposite impact would have occurred to earnings 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, 2019, if the US foreign exchange rate had been $0.01 lower with all other variables held constant, earnings for the year would have been approximately $6.4 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 and unrealized gain on foreign exchange contracts.

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, 2019, if interest rates had been 1% higher with all other variables held constant, earnings for the year would have been approximately $2.4 million lower, due to higher finance costs. An equal and opposite impact would have occurred to earnings had interest rates been 1% lower. The Corporation has an interest rate swap that was initiated in 2019 and that expires in September 2021 along with the maturity of the credit facility. The interest rate swap allows for a fixed interest rate of 1.50% in replace of LIBOR on $50.0 million notional amount of USD debt.

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, $330.0 million revolving credit facility, a $50.0 million accordion facility, $100.0 million of convertible debentures and retained earnings. The Board of Directors monitors the return on capital as well as the level of dividends to common shareholders.

The Corporation manages capital by monitoring certain debt covenants set out in its credit facility. The Corporation has a maximum senior debt to contracted EBITDA of 2.5:1 which can extend to 3.0:1 for a period of 90 days. Contracted EBITDA is defined as net income before interest expense, income taxes, depreciation and amortization, bad debt expense, realized and unrealized foreign exchange gains or losses and non-cash stock-based compensation expenses, the Corporation can include twelve months of revenue from partners that are less than twelve months from closing and must exclude revenue from partners for the portion that was redeemed or repurchased and for distributions that have been accrued and are past due. The Corporation has a fixed charge coverage ratio covenant of 1:1. Additionally, a minimum tangible net worth requirement of $450.0 million is in place. Tangible net worth is defined as shareholders equity less intangible assets. The Corporation was in compliance with all debt covenants at December 31, 2019 (please refer to Note 7 for actual ratios as of December 31, 2019). In order to acquire more distributions, 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.

5. Investments

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

Investments at Fair Value & Amortized Cost *$ thousands*	**Carrying Value**		**Acquisition Cost**	
As at	**31-Dec-19**	**31-Dec-18**	**31-Dec-19**	**31-Dec-18**
Lower Mainland Steel Limited Partnership ("LMS")*	$ 49,054	$ 39,769	$ 60,412	$ 60,690
SCR Mining and Tunneling, LP ("SCR")	34,503	28,903	40,487	40,487
Kimco Holdings, LLC ("Kimco")*	14,809	25,965	45,993	48,016
PF Growth Partners, LLC ("PFGP")*	94,498	34,064	90,008	28,913
PF Growth Partners, LLC ("PFGP Common Equity")*	21,807	-	21,972	-
DNT, LLC ("DNT")*	90,095	94,059	89,159	93,082
Federal Resources Supply Company ("FED")*	96,081	100,309	88,768	92,674
Sandbox Acquisitions, LLC ("Sandbox")*	-	53,318	-	48,711
Providence Industries, LLC ("Providence")*	29,980	39,007	39,712	41,459
Unify, LLC ("Unify")*	32,670	18,441	29,873	16,803
ccCommunications LLC ("ccComm")*	19,376	21,755	35,026	22,183
Accscient, LLC ("Accscient")*	50,020	42,261	50,642	41,829
Sales Benchmark Index LLC ("SBI")*	110,085	124,783	98,534	116,585
Heritage Restoration, LLC ("Heritage")*	21,170	21,556	17,730	18,511
Fleet Advantage, LLC ("Fleet")*	13,590	20,464	12,644	19,802
Body Contour Centers, LLC ("BCC")*	61,294	62,763	56,913	59,418
GWM Holdings, Inc ("GWM")*	9,932	6,139	5,723	5,975
GWM Loan Receivable at amortized cost*	54,232	56,619	54,232	55,104
Amur Financial Group ("Amur")	50,000	-	50,000	-
Amur Financial Group ("Amur Common Equity")	20,000	-	20,000	-
Stride Consulting LLC ("Stride")*	7,841	-	7,973	-
Total Investments	**$ 881,037**	**$ 790,175**	**$ 915,803**	**$ 810,242**

Transactions closed in 2019

Accscient Additional Contribution

On January 12, 2019, the Corporation invested an additional US$8.0 million into Accscient in exchange for initial annual distributions of US$1.1 million.

Sandbox Additional Contribution

On February 22, 2019, the Corporation contributed an additional US$5.0 million into Sandbox, in exchange for initial annual distributions of US$0.8 million. See Note 11 for additional information related to Sandbox.

Partial Redemption of Redeemable SBI Units

On May 10, 2019, the Corporation received a partial redemption of US$10.0 million from SBI in exchange for preferred units which had an associated US$1.4 million of annual distributions. The preferred units were redeemed at par, in accordance with the operating agreement.

Proceeds from Phoenix (formerly KMH)

On May 31, 2019, the Corporation received US$1.5 million from the third party which purchased a US loan the Corporation had outstanding with Phoenix Holdings Limited ("Phoenix"), a previous partner of the Corporation. The US$1.5 million was recorded as a recovery of a previously recorded bad debt expense during the year ended December 31, 2019.

Investment into Amur

On June 21, 2019, the Corporation made an initial contribution into Amur Financial Group which consisted of $48.0 million of debt, $2.0 million of preferred equity and an investment of $20.0 million in exchange for common shares of Amur. The Amur contribution in exchange for debt and preferred units of $50.0 million, has resulted in an initial annualized distribution to the Corporation of $6.5 million. The Amur distribution will be adjusted annually (commencing January 1, 2021) based on the change in Amur's gross revenues, subject to a +/- 6% collar. The Corporation is entitled to their ownership percentage of any common equity distributions declared.

The investments in Amur are recorded at fair value. As the fair value of preferred units and debt will vary based on expected variability in future distributions, it will be recorded separately from the fair value of the common units, which will be based on the underlying value of Amur's business.

PFGP Additional Contribution

On July 11, 2019, the Corporation contributed an additional US$60.2 million to PFGP. The contribution consisted of a new US$43.7 million preferred equity investment and US$16.5 million in exchange for a minority ownership of the common equity in PFGP. In conjunction with the incremental investment, the Corporation also crystalized a US$7.0 million gain on existing units that had a US$20.8 million cost basis and a redemption price of US$27.8 million. Following the investment, the Corporation has US$71.5 million of preferred equity (US$43.7 million of new units and US$27.8 million of existing), in addition to US$16.5 million of common equity for a total investment at the time of US$88.0 million. The reset metric is based on same club sales and will adjust +/- 5%, with the next reset effective January 1, 2020.

On December 2, 2019, the Corporation made an additional US$1.0 million contribution in exchange for an additional US$0.8 million of preferred units and US$0.2 million of a minority interest of the common equity in PFGP. The Corporation has committed to contribute an additional US$7.0 million throughout 2020 (an additional US$5.7 million of preferred equity and US$1.3 million of common equity, terms consistent with the two existing classes).

Partial Redemption of Redeemable Fleet Units

On July 22, 2019, the Corporation received a partial redemption of US$5.0 million from Fleet in exchange for preferred units which had an associated US$0.7 million of annual distributions. The preferred units were redeemed at par, in accordance with the operating agreement.

ccComm Additional Contribution

The Corporation invested an additional US$3.0 million in ccComm during the year ended December 31, 2019, in exchange for initial annual distributions of US$0.4 million.

Investment in Stride

On November 7, 2019, the Corporation made a US$6.0 million contribution in exchange for preferred units in Stride. The Corporation is entitled to an annual distribution of US$0.8 million. Commencing on January 1, 2021, the distribution will be adjusted annually based on the percentage change in gross revenue year over year, subject to a collar of +/- 6%. In addition to the initial contribution, the Corporation has committed to contributing, at the option of Stride, an additional US$4.0 million which is subject to the Corporation's approval and Stride achieving certain financial targets.

Unify Additional Contribution

On December 17, 2019, the Corporation contributed an additional US$10.5 million to Unify in exchange for preferred units. The Corporation also exchanged the existing preferred units in Unify into new preferred units, which were previously valued at US$14.5 million (original cost of US$12.0 million). The resulting preferred units following the contribution and exchange of current units were US$25.0 million of new preferred units. The new preferred units will result in an initial annualized distribution of US$3.3 million. The distribution will have a payment in kind ("PIK") feature, pursuant to which Unify can elect to PIK up to 2.0% of the Corporation's invested capital and any such outstanding amounts would then accrue at the rate equal to the current overall yield of the Unify distribution. Commencing on January 1, 2021, the distribution will be adjusted annually based on the percentage change in net revenue year over year subject to a collar of +/- 5%.

<u>Transactions closed in 2018</u>

Investment in Heritage

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

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

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

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

Kimco Additional Contribution

On March 30, 2018, the Corporation loaned US$6.0 million to Kimco to replace existing subordinated debt. The loan has a five year term and an annual yield of 12% (US$0.7 million). On July 26, 2018, the Corporation loaned an additional US$3.8 million to Kimco to fund working capital. The Corporation was entitled to an annual yield of 8% (US$0.3 million), paid monthly. Both the subordinated debt and the loan mature on March 30, 2023.

Partial Redemption of PFGP Units

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

ccComm Additional Contribution

On May 31, 2018, the Corporation contributed US$10.0 million to ccComm. in exchange for annualized distributions of US$1.4 million. The proceeds were used to fund an acquisition in their related industry.

Investment in Fleet

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

Redemption of Labstat International, ULC ("Labstat")

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

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

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

Redemption of End of the Roll Carpet and Vinyl ("End of the Roll")

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

Accscient Additional Contributions

On June 15, 2018, the Corporation contributed an additional US$3.0 million to Accscient in exchange for additional annualized distributions of US$0.4 million. On August 9, 2018, the Corporation contributed an additional US$7.0 million to Accscient in exchange for additional annualized distributions of US$1.0 million.

Investment in BCC

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

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

LMS Contribution of Debt

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

Sandbox Debt Purchase

On October 29, 2018, the Corporation purchased the outstanding senior debt of Sandbox for US$12.5 million with an additional US$1.0 million added in December 2018. The outstanding debt consists of US$6.6 million of term debt and US$7.4 million of an asset backed lending ("ABL") facility. The term debt matures on March 8, 2021 and is amortizing over 5 years with annual repayments of US$1.6 million. The term debt and the ABL facility interest are based on a LIBOR spread. See Note 11 for additional information related to Sandbox.

Investment in GWM

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

Partial Redemption of Redeemable Unify Units

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

Assumptions used in fair value calculations:

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

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

a) A going concern value was determined by calculating the discounted cash flow of the future expected distributions. Key assumptions used include the discount rate used in the calculation and estimates relating to changes in future distributions. For each individual partner, the Corporation considered a number of different discount rate factors including what industry they operated in, the size of the company, the health of the balance sheet and the ability of the historical earnings to cover the future distributions. This was supported by the historical yield of the original investment, current investing yields, and the current yield of Alaris' publicly traded shares and of other similar public companies. Future distributions have been discounted at rates ranging from 13.3% - 19.5%. The Corporation considers the maximum repurchase price in all fair value adjustments of investments. All of the preferred equity investments except as noted below were valued on this basis at December 31, 2019 and December 31, 2018. The Corporation estimates the fair value of its common equity investments using the discounted cash flows of the underlying business. Key assumptions used include the discount rate and estimated future cash flows.

b) A liquidation value is used when there is concern around the collection of future distributions and the partner company is in default with the Corporation or when the Corporation has been notified of redemption and is reasonably certain in collecting the liquidation value. The liquidation value is calculated using the formula specified in each of the partnership agreements while considering an estimate of the current value of the private company to determine if there would be sufficient value to cover the liquidation amount. If not, the value is reduced to what the calculation estimates may be recovered (the liquidation value). As at December 31, 2019, the liquidation value was used to value the Sandbox investment as described further in Note 11.

From this analysis, management of the Corporation determined the fair value of the investments at fair value for each individual Partner and below is a summary of the fair value adjustments in 2019 and 2018.

Investments *($ thousands)*	Opening Carrying Value	Additions	Redemptions	Foreign Exchange Adjustment	Reclass to Assets Held for Sale	Fair Value Adjustment	Ending Carrying Value
2019							
LMS	$ 39,769	$ -	$ -	$ (265)	$ -	$ 9,550	$ 49,054
SCR	28,903	-	-	-	-	5,600	34,503
Kimco	25,965	-	-	(1,072)	-	(10,084)	14,809
PFGP	34,064	58,516	-	(1,880)	-	3,798	94,498
PFGP Common	-	21,972	-	(165)	-	-	21,807
DNT	94,059	-	-	(3,964)	-	-	90,095
FED	100,309	-	-	(4,228)	-	-	96,081
Sandbox	53,318	6,578	-	(2,103)	(6,610)	(51,183)	-
Providence	39,007	-	-	(1,488)	-	(7,539)	29,980
Unify	18,441	13,778	-	(807)	-	1,258	32,670
ccComm	21,755	3,964	-	(985)	-	(5,358)	19,376
Accscient	42,261	10,576	-	(1,902)	-	(915)	50,020
SBI	124,783	-	(13,505)	(4,832)	-	3,639	110,085
Heritage	21,556	-	-	(909)	-	523	21,170
Fleet	20,464	-	(6,584)	(813)	-	523	13,590
BCC	62,763	-	-	(2,645)	-	1,176	61,294
GWM	6,139	-	-	(301)	-	4,094	9,932
GWM loan receivable	56,619	-	-	(2,387)	-	-	54,232
Amur	-	50,000	-	-	-	-	50,000
Amur Common Equity	-	20,000	-	-	-	-	20,000
Stride	-	7,973	-	(132)	-	-	7,841
Investments - December 31, 2019	**$ 790,175**	**$ 193,357**	**$ (20,089)**	**$ (30,878)**	**$ (6,610)**	**$ (44,918)**	**$ 881,037**

Investments *($ thousands)*	Opening Carrying Value	Additions	Redemptions	Foreign Exchange Adjustment	Reclass to Assets Held for Sale	Fair Value Adjustment	Ending Carrying Value
2018							
LMS	$ 35,917	$ -	$ -	$ 502	$ -	$ 3,350	$ 39,769
Labstat	61,324	-	(61,324)	-	-	-	-
Agility	26,133	-	(26,471)	337	-	-	-
SCR	26,203	-	-	-	-	2,700	28,903
Kimco	29,044	-	-	2,293	-	(5,372)	25,965
PFGP	57,427	-	(32,337)	3,521	-	5,453	34,064
DNT	89,933	-	(259)	7,735	-	(3,350)	94,059
FED	90,789	-	-	7,936	-	1,584	100,309
Sandbox	46,517	-	-	3,913	-	2,888	53,318
Providence	40,661	-	-	3,408	-	(5,062)	39,007
Unify	24,499	-	(8,186)	2,128	-	-	18,441
ccComm	7,941	13,200	-	1,150	-	(536)	21,755
Accscient	25,515	13,027	-	2,939	-	780	42,261
SBI	107,156	-	-	9,561	-	8,066	124,783
Heritage	-	18,511	-	2,009	-	1,036	21,556
Fleet	-	19,800	-	664	-	-	20,464
BCC	-	59,417	-	3,346	-	-	62,763
GWM	-	5,975	-	164	-	-	6,139
GWM loan receivable	-	55,104	-	1,515	-	-	56,619
Prospective deals	156	(156)	-	-	-	-	-
Investments - December 31, 2018	**$ 669,215**	**$ 184,878**	**$ (128,577)**	**$ 53,121**	**$ -**	**$ 11,537**	**$ 790,175**

Distributions:

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

Partner Distributions:	**Year ended December 31**	
$ thousands	**2019**	**2018**
DNT	$ 14,943	$ 14,831
FED	14,862	13,864
SBI	14,650	14,320
BCC	8,547	2,495
PFGP	8,190	6,349
Sandbox	8,000	7,150
GWM	7,405	830
Accscient	7,355	4,711
LMS	5,551	5,170
Providence	3,900	6,125
Amur	3,413	-
ccComm	3,229	2,299
Heritage	3,152	2,730
Unify	2,630	3,502
Fleet	2,379	1,495
SCR	2,250	1,650
Amur Common Equity	705	-
Stride	163	-
Labstat	-	8,340
End of the Roll	-	692
Agility Health	-	637
Kimco	-	780
Total Distributions	$ 111,324	$ 97,970
Other Income		
Interest	4,644	2,109
Total Revenue	**$ 115,968**	**$ 100,079**

As of December 31, 2019, trade receivables are $1.2 million (December 31, 2018 - $0.9 million). The Corporation expects to collect the majority of the balance within the next twelve months. The Corporation did not record any bad debt expense during the year ended December 31, 2019 (December 31, 2018 - $0.5 million).

Promissory Notes and Other Receivables:

As part of being a long-term partner with the companies the Corporation holds preferred interests in, from time to time the Corporation has offered alternative financing solutions to assist with short-term needs of the individual businesses. The Corporation will continue to pursue recovery of the full face value for all outstanding promissory notes. Should there be an adverse event to any of the above businesses, the timing and amounts collected could be negatively impacted. The differences between carrying value and face value is due to the timing and uncertainty surrounding the collection of cash flows. Below is a summary of changes in promissory notes and other receivables for the year ended December 31, 2019.

Reconciliation of Promissory Notes and Other Receivables *($ thousands)*	**Year ended**	
	31-Dec-19	*31-Dec-18*
Face Value - Opening	$ 93,731	$ 63,906
Opening provision for credit losses	(43,520)	(16,486)
Carrying value as at beginning of year	**$ 50,211**	**$ 47,420**
Additions	$ 8,823	38,073
Repayments	(4,916)	(11,923)
Bad debt expense	-	(25,431)
Reclassification to assets held for sale (Note 11)	(26,140)	-
Foreign exchange	(1,735)	2,072
Carrying value as at end of year	**$ 26,243**	**$ 50,211**
Promissory notes & other receivables - current	$ 6,580	$ 23,252
Promissory notes & other receivables - non-current	$ 19,663	$ 26,959

The Corporation has the following promissory notes and long-term receivables by partner outstanding as of December 31, 2019:

Promissory Notes and Other Receivables by Partner	**Carrying Value**	
($ thousands)	*31-Dec-19*	*31-Dec-18*
Lower Mainland Steel	$ 5,000	$ 5,000
Sandbox	-	18,136
Group SM - secured promissory note	1,580	4,500
Agility - accounts receivable	-	2,046
Kimco - long-term accounts receivable	2,381	2,494
Kimco	17,282	18,035
Balance	**$ 26,243**	**$ 50,211**

The expected credit loss model classifies the Corporations outstanding promissory notes and other receivables in three stages based on their credit quality. Stage 1 represents the lowest credit risk and stage 3 representing loans that are in default or past due. As at December 31, 2019 the Corporation had $23.8 million (December 31, 2018 - $47.7 million) of promissory notes and other receivables classified as stage 1 and $2.4 million classified as stage 3 (December 31, 2018 - $2.5 million). There was no transfer between stages during the year ended December 31, 2019.

During the period, the Corporation reclassified the outstanding senior debt due from Sandbox to Assets held for sale. Refer to further discussion on the Sandbox sale process in Note 11.

Total credit losses recognized during the year and as at December 31, 2019 were $nil and $43.5 million, respectively (2018 $25.4 million and $43.5 million, respectively).

6. Share capital:

The Corporation has authorized, issued and outstanding, 36,709,081 voting common shares as at December 31, 2019 (December 31, 2018 – 36,496,247).

Issued Common Shares	Number of Shares	Amount ($)
	thousands	*$ thousands*
Balance at December 31, 2017	36,481	$ 620,842
RSUs vested	15	240
Balance at December 31, 2018	36,496	$ 621,082
RSUs vested	213	4,231
Balance at December 31, 2019	**36,709**	**$ 625,313**

There were 1,433,866 and 2,242,364 options excluded from the table and calculation below as they were anti-dilutive at December 31, 2019 and December 31, 2018, respectively.

Weighted Average Shares Outstanding	Year ended December 31	
thousands	**2019**	**2018**
Weighted average shares outstanding, basic	36,597	36,483
Effect of outstanding RSUs	292	281
Weighted average shares outstanding, fully diluted	36,889	36,765

Dividends

The Corporation declared dividends of $0.1375 per common share each month in 2019, $1.65 per share and $60.4 million in aggregate (2018 - $1.6225 per share and $59.3 million in aggregate).

7. Loans and borrowings:

As at December 31, 2019 the Corporation has a $330 million credit facility with a syndicate of Canadian chartered banks, the facility has a four year term with a maturity date in September 2021. The interest rate is based on a combination of the CAD Prime Rate ("Prime"), Bankers' Acceptances ("BA"), US Base Rate ("USBR") and LIBOR. The Corporation realized a blended interest rate of 6.0% for the year ended December 31, 2019.

At December 31, 2019, the Corporation had US$197.2 million and CAD$27.5 million (CAD$285.2 million) drawn on its credit facility (December 31, 2018 – US$167.2 million and CAD nil, total of CAD$228.1 million). During the year ended December 31, 2019, the Corporation revised the base amount of the facility from $300 million to $330 million. There was no change to the $50 million accordion, covenants or pricing.

Loans and Borrowings Continuity	Denominated Debt		Total
$ thousands	**$USD**	**$CAD**	**$CAD**
Balance at December 31, 2018	**$ 167,200**	**$ -**	**$ 228,103**
Draw (Sandbox #4)	5,000	-	6,634
Repayment (SBI Partial Redemption)	(10,000)	-	(13,424)
Repayment (Convert Debentures proceeds)	(37,200)	-	(49,372)
Draw (Amur)	-	24,000	24,000
Draw (PFGP Follow-on)	60,200	-	78,748
Draw (Sandbox Debt)	-	2,500	2,500
Repayment (Fleet Partial Redemption)	(4,000)	-	(5,234)
Draw (Stride)	6,000	-	7,889
Draw (Unify Follow-On)	10,000	1,000	14,235
Unrealized FX (gain) / loss on USD denominated debt	N/A	N/A	(8,886)
Balance at December 31, 2019	**$ 197,200**	**$ 27,500**	**$ 285,193**

At December 31, 2019 the Corporation met all of its covenants as required by the facility. Those covenants include a maximum funded debt to contracted EBITDA of 2.5:1, which can be increased to 3.0:1 for up to ninety days (actual ratio was 2.52:1 at December 31, 2019 and decreased to 1.46:1 following the SBI redemption in January 2020 and the sale of Sandbox in February 2020); minimum tangible net worth of $450.0 million (actual amount is $600.4 million at December 31, 2019); and a minimum fixed charge coverage ratio of 1:1 (actual ratio is 1.19:1 at December 31, 2019).

8. Convertible debentures:

During the year ended December 31, 2019, the Corporation issued $100.0 million aggregate principal amount of convertible unsecured subordinated debentures ("Debentures") at a price of $1,000 per Debenture and an interest rate of 5.50% per annum, payable semi-annually on the last business day of June and December which commenced December 31, 2019 and with a maturity date of June 30, 2024.

The Debentures are convertible into fully paid and non-assessable common shares of the Corporation at a conversion price of $24.25 per common share, being a conversion rate of approximately 41.2371 common shares for each $1,000 principal amount of Debentures. The Debentures can be converted at the holder's option at any time prior to the close of business on the earlier of the business day immediately preceding the maturity date of June 30, 2024 and the date specified by the Corporation for redemption of the Debentures.

The Debentures are not redeemable by the Corporation before June 30, 2022. On and after June 30, 2022 and prior to June 30, 2023, the Debentures may be redeemed in whole or in part from time to time at the option of the Corporation at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the common shares on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given is not less than 125% of the conversion price. On and after June 30, 2023, the Debentures may be redeemed in whole or in part from time to time at the option of the Corporation at a price equal to their principal amount plus accrued and unpaid interest regardless of the trading price of the common shares.

Convertible Debenture *($ thousands)*	**Debt**	**Equity**	**Total**
Balance at December 31, 2018	$ -	$ -	$ -
Face value of issuance	94,500	5,500	100,000
Issuance Cost	(4,473)	-	(4,473)
Deferred taxes	-	(1,441)	(1,441)
Accretion to face value	912	-	912
Balance at December 31, 2019	**$ 90,939**	**$ 4,059**	**$ 94,998**

The liability component of the convertible debenture was initially recognized at the fair value of a liability which does not contain an equity conversion option, based on a market interest rate of 7.0%. The difference between the principal $100.0 million and the fair value of the liability component was recognized in equity. The Corporation recorded $4.5 million in issuance costs which will be amortized and recorded as finance costs using the effective interest rate method over the five year term of the convertible debenture.

9. 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 743,176 and issued 291,993 RSUs to management and Directors as of December 31, 2019. The RSUs issued to directors (93,750) vest over a three year period. The RSU's issued to management (207,113) are a combination of time vested units (98,712) and performance vested units (108,401). The time vested units do not vest until the end of a three year period (49,069 in 2020, 43,815 in 2021 and 5,828 in March 2022). The performance vested units vest one third every year (49,069 in 2020, 53,504 in 2021 and 5,828 in 2022) and are subject to certain performance conditions relating to operating cash flow per share (for the August 2020 units) and book value per share (all units vesting after August 2020). 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 and issued 1,433,866 options as of December 31, 2019. The options outstanding at December 31, 2019, have an exercise price in the range of $20.60 to $24.78, a weighted average exercise price of $22.67 (2018 – $25.56) and a weighted average contractual life of 1.77 years (2018 – 2.05 years).

For the year ended December 31, 2019 the Corporation incurred stock-based compensation expenses of $4.3 million (2018 - $2.9 million) which includes: $3.9 million (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2018 - $1.9 million); and $0.4 million (non-cash expense) for the amortization of the fair value of outstanding stock options (2018 - $1.0 million).

The following table summarizes the stock-based compensation expense recognized in 2019 and 2018, along with a continuity of RSUs and Options in the period.

For the year ended December 31, 2019						
	Expensed in the period	Outstanding as at January 1, 2019	Issued in the period	Vested or exercised	Forfeited / Expired	Outstanding as at December 31, 2019
	$ thousands					
RSUs	$ 3,923	276,651	291,993	(212,834)	(54,947)	300,863
Options	393	1,789,804	-	-	(355,938)	1,433,866
Total expense	$ 4,315					

For the year ended December 31, 2018						
	Expensed in the period	Outstanding as at January 1, 2018	Issued in the period	Vested or exercised	Forfeited / Expired	Outstanding as at December 31, 2018
	$ thousands					
RSUs	$ 1,852	291,651	-	(15,000)	-	276,651
Options	1,009	2,245,864	-	-	(456,060)	1,789,804
Total expense	$ 2,861					

The following table summarizes the options outstanding and exercisable as at December 31, 2019 and 2018:

Exercise Price	Number Outstanding		Weighted average remaining life (years)		Number exercisable	
	2019	2018	2019	2018	2019	2018
$33.87	-	407,560	-	0.25	-	-
$26.79	-	45,000	-	0.30	-	45,000
$31.15	-	193,739	-	0.59	-	193,739
$33.06	-	20,000	-	0.70	-	20,000
$24.78	449,847	505,847	0.58	1.57	449,847	379,385
$22.78	472,913	521,014	2.04	3.07	472,913	260,507
$22.33	30,000	30,000	2.21	3.20	30,000	15,000
$20.60	481,106	519,204	2.79	3.78	481,106	129,801
Total	1,433,866	2,242,364	1.77	2.05	1,433,866	1,043,432

10. Income Taxes:

The Corporation's consolidated statutory tax rate for the year ended December 31, 2019 was 26.59% (year ended December 31, 2018 – 26.64%). The change in the Corporation's consolidated statutory tax rate from 2018 was caused by income being allocated to different provinces and states than in the prior year and a sliding reduction in Alberta provincial tax rates from 2019 to 2022. 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	2019	2018
Earnings before income taxes	$ 27,977	$ 76,232
Combined federal and provincial statutory income tax rate	26.59%	26.64%
Expected income tax provision	$ 7,439	$ 20,308
Rate differences of foreign jurisdictions	(11,353)	(9,539)
Non-taxable portion of capital gains	(624)	(478)
Non-deductible expense and other	618	1,120
Change in unrecognized deferred tax assets	(3,137)	5,599
Prior period adjustment	(1,224)	(1,574)
Balance at end of year	**$ (8,281)**	**$ 15,436**

Cash taxes paid during the year were $8.8 million (net of refunds of $1.9 million) and in 2018 the Corporation paid $10.5 million (which included $2.6 million of cash taxes related to the gain on redemption of the Agility 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):	2019	2018
Share issue costs	(131)	401
Investment tax credits	(611)	(797)
Preferred partnership units	(7,704)	(6,930)
Convertible Debentures	(1,305)	-
Disallowed interest and net capital losses	11,603	1,113
Derivatives	(1,182)	(3,207)
Foreign exchange on loan receivable	(339)	(651)
Foreign exchange on loan payable	(100)	1,205
Distributions to be taxed in future years	(2,566)	(2,521)
Bad debt	1,027	1,130
Valuation allowance	(2,421)	(5,599)
Balance at end of year	**$ (3,729)**	**$ (15,856)**

As at December 31, 2019, the Corporation has unused federal investment tax credits which expire from time to time as follows:

Unused Federal Investment Tax Credits	2019
2022	$ 786
2023	1,841
2024	648
Balance at end of year	**$ 3,275**

Movement in deferred tax balances during the year	Deferred Income Taxes
Balance at December 31, 2017	**$ (8,192)**
Recognized in profit and loss	(6,713)
Reduction to investment tax credit	159
Currency translation and other	(1,110)
Balance at December 31, 2018	**(15,856)**
Recognized in profit and loss	13,628
Reduction to investment tax credit	(477)
Recognized directly in equity	(1,441)
Currency translation and other	417
Balance at December 31, 2019	**$ (3,729)**

In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009. The Corporation has since received notices of reassessment from the Canada Revenue Agency in respect of its taxation year ended December 30, 2009 through December 30, 2017 (collectively the "Reassessments"). Pursuant to the Reassessments, the deduction of approximately $121.2 million of non-capital losses and utilization of $7.6 million in investment tax credits ("ITCs") by the Corporation was denied, resulting in reassessed taxes and interest of approximately $50.4 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 claim ITCs and as such, the Corporation remains of the opinion that all tax filings to date were filed correctly and that it will be successful in appealing such Reassessments. The Corporation intends to continue to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amounts as a deposit to the Canada Revenue Agency. The Corporation has paid a total of $20.2 million in deposits to the CRA relating to the Reassessments to date. It is possible that the Corporation may be reassessed with respect to the deduction of its tax pools in respect of its tax filings in respect of the 2018 and 2019 taxation years, thereby disallowing ITCs of $0.5 million, on the same basis. The carrying values of the remaining ITCs of $3.3 million at December 31, 2019 are at risk should the Corporation be unsuccessful in defending its position. The Corporation anticipates that legal proceedings through the CRA and the courts will take considerable time to resolve and the payment of the deposits, and any taxes, interest or penalties owing will not materially impact the Corporation's payout ratio. The Corporation firmly believes it will be successful in defending its position and therefore, any current or future deposit paid to the CRA would be refunded, plus interest. The Corporation will continue to file its tax returns by claiming the remaining available investment tax credits in subsequent tax filings. As at December 31, 2019, the CRA has denied the following tax claims and assessed the related taxes and interest:

Tax Year	ITCs Applied	Losses Applied	Estimated tax and interest
July 2009		$ 10,532	$ 4,664
December 2009		1,916	881
December 2010		14,646	6,471
December 2011		14,992	6,065
December 2012		16,774	4,807
December 2013		22,642	7,048
December 2014		29,153	9,042
December 2015	2,315	10,560	4,502
December 2016	3,067	-	5,168
December 2017	1,811	-	1,788
December 2018	1,396	-	-
December 2019	(940)	-	-
Balance as at December 31, 2019	**$ 7,649**	**$ 121,215**	**$ 50,436**

In December of 2018 the U.S. Treasury issued proposed regulations which provided administrative guidance and clarified certain aspects of U.S. Tax Reform. The proposed regulations are complex and comprehensive, and considerable uncertainty continues to exist until the final regulations are released, which is expected to occur early in 2020. As these proposed regulations have not been enacted as at December 31, 2019, their impact has not been reflected in income tax expense. However, if the proposed regulations are enacted as currently drafted, certain provisions could be effective commencing January 1, 2019. Based on the Corporation's current capital structure, the resulting increase to income tax expense of the Company for the year ended, December 31, 2019 would be an increase of approximately $11.7 million. However, it is not known at this time if changes would be applied retroactively or prospectively.

11. Assets acquired held for sale:

In December 2019, the Corporation exercised its step in rights and assumed voting control over Sandbox as a result of their failure to meet certain requirements in the Corporation's preferred equity agreements.

The Corporation exercised its step-in rights primarily to control the timing of a strategic process of recapitalizing or selling Sandbox to help ensure any transaction was in the best interests of Sandbox, the Corporation and other stakeholders. Immediately prior to the assumption of control, the Corporation's carrying value of its accrued interest and distributions, investment and senior debt with Sandbox, respectively, was US$3.2 million, US$40.0 million and US$20.0 million.

The assumption of voting control of Sandbox required the Corporation to account for the transaction as a business combination. Business combination accounting required the Corporation to record the assets acquired and liabilities assumed at their acquisition date fair value. As voting control of Sandbox was obtained with the sole intent of having the investment sold in the near term and with a strategic process underway, the Corporation assessed that it was likely the business would be disposed of within the next 12 months. Accordingly, the acquired business meets the definition of assets and liabilities held for sale and has been presented as such in these financial statements. The assets and liabilities held for sale are recorded at the lower of their carrying amount and their fair value less costs to sell. Given the close proximity of the acquisition date to the end of the reporting period, the Corporation has assessed the fair value of assets and liabilities acquired to approximate the fair value of the assets and liabilities held for sale.

As no payments were made to acquire control of Sandbox, the fair value of the assets acquired and liabilities assumed in the business combination were determined with reference to the values that the Corporation has observed through interested parties in the strategic process and the proceeds the Corporation expected to receive for settlement of its financial interests in Sandbox on the conclusion of the process. As a result, the Corporation recorded a reduction to the fair value of the investment in Sandbox of US$35.1 million immediately prior to the acquisition. This reduction has been recorded as a loss on assets held for sale in the statement of comprehensive income. The Corporation's preferred equity investment and senior debt and other receivables eliminate on consolidation. The estimated fair value of these financial interests are now represented as the value of the net assets and liabilities held for sale at December 31, 2019 of $36.9 million.

The table below outlines the Corporation's preliminary assessment of the fair value of the assets and liabilities acquired in the business combination and the resulting values recognized as assets and liabilities held for sale as at December 31, 2019.

Sandbox assets and liabilities held for sale	Fair Value on Acquisition	Elimination	Held for Sale at December 31, 2019
Assets			
Current assets	$ 24,200		$ 24,200
Property, plant and equipment, net	5,527		5,527
Right of use asset	12,425		12,425
Intangible assets	55,021		55,021
Total assets	97,173		97,173
Liabilities			
Current liabilities	34,624	(4,126)	30,498
Loans and borrowings due to Alaris	26,140	(26,140)	-
Lease liability	12,425		12,425
Other long-term liabilities	17,374		17,374
Preferred shares due to Alaris	6,610	(6,610)	-
Total liabilities	97,173		60,297
Net assets held for sale			$ 36,876

Assets acquired relate primarily to working capital and intangible assets. Liabilities acquired relate primarily to working capital and debt instruments owing to the Corporation.

The Corporation's preliminary assessment of the fair value of the assets acquired and liabilities assumed in the acquisition concluded that the fair value of current assets and liabilities, property plant and equipment, loans and borrowings and other long term liabilities approximated their previous carrying values. The right of use asset and lease liability reflect Sandbox's office lease liabilities discounted at the weighted average incremental borrowing rate of 7.9%. The preferred shares issued to Alaris were valued based on the expected proceeds that Alaris will receive at the conclusion of the strategic process. The intangible assets primarily relate to customer relationships and Sandbox's assembled work force and have been preliminarily valued at the net of Sandbox's other identifiable assets and liabilities. As no consideration was paid for this acquisition, no bargain purchase was recognized.

Revenues, expenses and net earnings from Sandbox from the date of acquisition to the end of the reporting period did not have a material impact on the Corporation's statement of comprehensive income.

On February 28, 2020, all of Sandbox's assets were sold to a third party under agreements providing for total consideration ("Total Consideration") to Alaris of up to approximately US$32.6 million (which included a repayment of the Corporation's senior debt and accrued interest as well as a partial repurchase of its preferred equity and payment of accrued distributions). Included in the US$32.6 million is US$4.1 million that is to be held in escrow for working capital adjustments and indemnity obligations, which, if released to Alaris, is expected to be paid out over a period of 24 months. Alaris can also receive a US$2.0 million earnout on top of the Total Consideration, that will, if certain performance conditions are satisfied, be paid out over 24 months. Until the escrowed matters are resolved, there is measurement uncertainty as to the values of the net assets acquired and liabilities assumed (and the corresponding assets and liabilities held for sale). Due to the uncertainty in the timing and resolution of these matters, the corresponding purchase price allocation assumed the Corporation's maximum exposure of the US$4.1 million, and therefore this amount is not included in the value of the net assets acquired and the corresponding assets and liabilities held for sale as of the acquisition date and December 31, 2019. Amounts received from the escrowed funds and earnout will be recognized as income upon receipt. The resulting value of the net assets acquired was US$28.2 million ($36.9 million) with the additional US$0.3 million from the total consideration received at close being applied against accrued interest owed to the Corporation for the period subsequent to December 31, 2019.

12. 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, 2019 and December 31, 2018, are measured at fair value on a recurring basis using level 2 or level 3 inputs. Discount rates, terminal growth 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, 2019.

Fair value classification *($ thousands)*	**Level 1**	**Level 2**	**Level 3**	**Total**
31-Dec-19				
Foreign exchange contracts	$ -	$ 555	$ -	$ 555
Investments	-	-	881,037	881,037
Total at December 31, 2019	**$ -**	**$ 555**	**$ 881,037**	**$ 881,592**
31-Dec-18	**Level 1**	**Level 2**	**Level 3**	**Total**
Foreign exchange contracts	$ -	$ (1,333)	$ -	$ (1,333)
Investments	-	-	790,175	790,175
Total at December 31, 2018	**$ -**	**($ 1,333)**	**$ 790,175**	**$ 788,842**

The fair values of cash and cash equivalents, trade and other receivables, promissory notes and other receivables, accounts payable and accrued liabilities, dividends payable, and loans and borrowings approximate their carrying values. The fair value of the convertible debenture at December 31, 2019 approximates the face value of issuance as disclosed in Note 8.

The Corporation purchases forward exchange rate contracts to match expected monthly dividends and expenses in Canadian dollars on a rolling 12 month basis and also for between 20% to 50% of the expected distributions on a rolling 12 to 24 month basis. The notional value of outstanding foreign exchange contracts is US$41.9 million as at December 31, 2019 (US$25.4 million as of December 31, 2018).

The most significant inputs in the calculation of fair value of Level 3 Investments is the discount rate applied to expected future cash flows, terminal growth rates and future distributions. If the discount rate increased (decreased) by 1%, the fair value of Level 3 investments at December 31, 2019 would decrease by $41.3 million and increase by $49.4 million. If the terminal growth rate increased (decreased) by 1%, the fair value of Level 3 investments would increase by $35.2 million and decrease by $28.9 million. If future distributions increased (decreased) by 1% the fair value of Level 3 investments would increase by $5.7 million and decrease by $5.2 million.

13. Commitments:

The Corporation has a commitment of up to US$45.0 million to BCC to fund additional contributions when specified financial metrics are achieved. Timing of these additional contributions is to be determined.

The Corporation also has a commitment to a further US$7.0 million to PFGP (an additional US$5.7 million of preferred equity and US$1.3 million of common equity, terms consistent with the two existing classes). Timing of the additional funding is expected to be within the next twelve months.

The Corporation has a commitment to a further US$4.0 million to Stride; subject to the Corporation's approval and Stride achieving certain financial targets. Timing of the additional funding is to be determined.

14. Related Parties:

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

Key Management Personnel *($ thousands)*	**2019**	**2018**
Base salaries and benefits	$ 898	$ 892
Bonus	981	920
Non cash stock-based compensation	1,552	-
Total for year ended December 31	**$ 3,431**	**$ 1,812**

15. Subsequent Events:

Redemption of SBI Units

On January 7, 2020, SBI entered into a purchase and sale agreement with a third party pursuant to which SBI redeemed all of the Corporation's outstanding US$75.0 million of preferred units. The gross proceeds on the redemption to the Corporation was US$91.3 million, which consisted of US$84.3 million for the preferred units inclusive of a US$9.3 million premium as well as US$7.0 million of distributions for the amounts owed up to the third anniversary date of the Corporation's initial investment, being August 31, 2020. These distributions were previously unaccrued and therefore will be recorded as revenue from distributions in 2020.