Consolidated Financial Statements of

ALARIS ROYALTY CORP.

Audited financial statements for the years ended
December 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alaris Royalty Corp.

We have audited the accompanying consolidated financial statements of Alaris Royalty Corp., which comprise the consolidated statement of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of comprehensive income/(loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alaris Royalty Corp. as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 7, 2017

Calgary, Canada

Alaris Royalty Corp.
Consolidated statement of financial position
As at December 31

	Note	31-Dec 2016	31-Dec 2015
Assets			
Cash and cash equivalents		$ 29,490,843	$ 20,990,702
Prepayments		2,097,070	2,434,451
Income tax receivable	10	-	3,528,509
Trade and other receivables	5	16,762,204	10,577,985
Investment tax credit receivable	10	3,653,719	3,796,888
Promissory notes receivable	5	21,922,445	11,750,000
Current Assets		73,926,281	53,078,535
Promissory notes and other receivables	5	7,891,312	7,234,945
Deposits	10	16,255,771	11,981,345
Equipment	6	647,445	791,942
Intangible assets	5	6,206,455	6,297,392
Investments at fair value	5	681,093,370	704,109,367
Investment tax credit receivable	10	1,200,604	4,716,919
Non-current assets		713,294,957	735,131,910
Total Assets		$ 787,221,239	$ 788,210,445
Liabilities			
Accounts payable and accrued liabilities		$ 3,057,457	$ 2,138,132
Dividends payable		4,905,368	4,900,869
Foreign exchange contracts	4	712,349	5,345,488
Income tax payable	10	2,007,244	1,841,634
Current Liabilities		10,682,418	14,226,123
Deferred income taxes	10	22,457,580	19,490,794
Loans and borrowings	8	99,382,999	77,447,075
Non-current liabilities		121,840,579	96,937,869
Total Liabilities		$ 132,522,997	$ 111,163,992
Equity			
Share capital	7	$ 617,892,818	$ 617,626,773
Equity reserve	9	11,628,364	7,525,767
Fair value reserve		(27,930,940)	1,874,903
Translation reserve		23,029,120	27,651,191
Retained earnings		30,078,880	22,367,819
Total Equity		$ 654,698,242	$ 677,046,453
Total Liabilities and Equity		$ 787,221,239	$ 788,210,445

Commitments, contingencies & guarantees	12
Subsequent events	13

On Behalf of the Board of Directors:

Director (signed) *“Jack C. Lee”*
Director (signed) *“Mary Ritchie”*

Alaris Royalty Corp.
Consolidated statement of comprehensive income / (loss)
For the year ended December 31

	Note	Year ended December 31, 2016	
		2016	2015
Revenues			
Royalties and distributions	5	$ 98,486,160	$ 81,894,788
Interest and other	5	1,556,213	951,683
Total Revenue		100,042,373	82,846,471
Other income			
Gain on partner redemption	5	20,270,826	2,792,457
Realized gain/(loss) on foreign exchange contracts	4	3,472,809	(4,155,100)
Total Other income / (loss)		23,743,635	(1,362,643)
Salaries and benefits		3,360,999	2,822,459
Corporate and office		3,296,509	2,849,447
Legal and accounting fees		2,512,724	2,262,792
Non-cash stock-based compensation	9	4,368,640	3,535,268
Bad debt expense	5	2,442,130	3,570,277
Impairment of preferred units	5	7,000,000	20,460,000
Depreciation and amortization		278,533	203,170
Total Operating Expenses		23,259,535	35,703,413
Earnings / (loss) before the undernoted		100,526,473	45,780,415
Finance costs	8	5,881,981	3,205,244
Unrealized (gain)/loss on foreign exchange contracts		(4,633,139)	3,803,858
Unrealized foreign exchange loss/(gain)		13,135,606	(33,405,320)
Earnings before taxes		86,142,025	72,176,633
Current income tax expense	10	7,104,359	2,262,824
Deferred income tax expense	10	12,484,287	12,052,333
Total income tax expense		19,588,646	14,315,157
Earnings		66,553,379	57,861,476
Other comprehensive income			
Transfer on redemption of investments at fair value		(27,399,056)	2,667,543
Net change in fair value of investments at fair value		(8,019,550)	3,972,055
Tax effect of items in other comprehensive income		5,612,763	(2,127,342)
Foreign currency translation differences		(4,622,071)	20,579,774
Other comprehensive income / (loss) for the year, net of income tax		(34,427,914)	25,092,030
Total comprehensive income for the year		32,125,465	82,953,506
Earnings per share			
Basic earnings per share	7	$1.83	$1.70
Fully diluted earnings per share	7	$1.81	$1.68
Weighted average shares outstanding			
Basic	7	36,335,524	33,960,479
Fully Diluted	7	36,711,139	34,390,355

Alaris Royalty Corp.
Consolidated statement of changes in equity
For the year ended December 31, 2015

	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2015		$ 498,363,066	$ 8,858,711	$ (2,637,353)	$ 7,071,417	$ 18,023,873	$ 529,679,714
Total comprehensive income for the year							
Earnings for the year		-	-	-	-	57,861,476	57,861,476
Other comprehensive income							
Transfer on redemption of investments at fair value		-	-	2,667,543	-	-	2,667,543
Net change in investments at fair value		-	-	3,972,055	-	-	3,972,055
Tax effect on items in other comprehensive income		-	-	(2,127,342)	-	-	(2,127,342)
Foreign currency translation differences		-	-	-	20,579,774	-	20,579,774
Total other comprehensive income		-	-	4,512,256	20,579,774	-	25,092,030
Total comprehensive income for the year		$ -	$ -	$ 4,512,256	$ 20,579,774	$ 57,861,476	$ 82,953,506
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	9	-	$3,535,268	-	-	-	$3,535,268
Dividends to shareholders	7	-	-	-	-	(53,517,530)	(53,517,530)
Shares issued in the year		115,035,478	-	-	-	-	115,035,478
Share issue costs, net of tax		(4,010,958)	-	-	-	-	(4,010,958)
Shares issued after RSU vesting		3,795,607	(3,795,607)				-
Options exercised in the year		4,443,580	(1,072,605)	-	-	-	3,370,975
Total transactions with Shareholders of the Company		119,263,707	(1,332,944)	-	-	(53,517,530)	64,413,233
Balance at December 31, 2015		$617,626,773	$7,525,767	$ 1,874,903	$ 27,651,191	$ 22,367,819	$ 677,046,453

Alaris Royalty Corp.

Consolidated statement of changes in equity

For the year ended December 31, 2016

	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2016		$ 617,626,773	$ 7,525,767	$ 1,874,903	$ 27,651,191	$ 22,367,819	$ 677,046,453
Total comprehensive income for the year							
Earnings for the year		-	-	-	-	66,553,379	66,553,379
Other comprehensive income							
Transfer on redemption of investments at fair value		-	-	(27,399,056)	-	-	(27,399,056)
Net change in investments at fair value				(8,019,550)	-	-	(8,019,550)
Tax effect on items in other comprehensive income		-	-	5,612,763	-	-	5,612,763
Foreign currency translation differences		-	-	-	(4,622,071)	-	(4,622,071)
Total other comprehensive income		-	-	(29,805,843)	(4,622,071)	-	(34,427,914)
Total comprehensive income for the year		$ -	$ -	$ (29,805,843)	$ (4,622,071)	$ 66,553,379	$ 32,125,465
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	9	-	$ 4,368,640	-	-	-	$ 4,368,640
Dividends to shareholders	7	-	-	-	-	(58,842,317)	(58,842,317)
Options exercised in the year		266,045	(266,045)	-	-	-	-
Total transactions with Shareholders of the Company		266,045	4,102,595	-	-	(58,842,317)	(54,473,677)
Balance at December 31, 2016		$ 617,892,818	$ 11,628,364	$ (27,930,940)	$ 23,029,120	$ 30,078,880	$ 654,698,242

Alaris Royalty Corp.

Consolidated statement of cash flows

For the year ended December 31

	Note	2016	2015
Cash flows from operating activities			
Earnings from the year		$ 66,553,379	$ 57,861,476
Adjustments for:			
Finance costs		5,881,981	3,205,244
Deferred income tax expense	10	12,484,287	12,052,333
Depreciation and amortization	6	278,533	203,170
Bad debt expense	5	2,442,130	3,570,277
Impairment of preferred units	5	7,000,000	20,460,000
Gain on partner redemption	5	(20,270,826)	(2,792,457)
Unrealized (gain) / loss on foreign exchange contracts		(4,633,139)	3,803,858
Unrealized foreign exchange (gain) / loss		13,135,606	(33,405,320)
Non-cash stock-based compensation		4,368,640	3,535,268
		$ 87,240,591	$ 68,493,849
Change in:			
- trade and other receivables	5	(13,017,661)	(9,758,469)
- income tax receivable / payable	10	3,694,119	-
- prepayments		337,381	(2,233,956)
- accounts payable and accrued liabilities		919,325	2,526,105
Cash generated from operating activities		79,173,755	59,027,529
Finance costs		(5,881,981)	(3,205,244)
Net cash from operating activities		$ 73,291,774	$ 55,822,285
Cash flows from investing activities			
Acquisition of equipment	6	$ (43,099)	$ (794,611)
Acquisition of preferred units	5	(110,881,976)	(178,150,381)
Proceeds from partner redemptions	5	103,211,951	44,300,000
Promissory notes issued	5	(6,750,000)	(12,214,850)
Promissory notes repaid	5	312,500	5,821,505
Net cash used in investing activities		$ (14,150,624)	$ (141,038,337)
Cash flows from financing activities			
New share capital, net of share issue costs	7	$ -	$ 109,580,622
Proceeds from exercise of options	9	-	3,370,975
Repayment of debt	8	(78,863,076)	(150,800,000)
Proceeds from debt	8	99,656,500	192,747,075
Dividends paid	7	(58,837,818)	(52,625,706)
Deposits with CRA	10	(4,233,362)	(10,713,968)
Net cash from / (used in) financing activities		$ (42,277,756)	$ 91,558,998
Net increase in cash and cash equivalents		$ 16,863,394	$ 6,342,946
Impact of foreign exchange on cash balances		(8,363,253)	1,164,232
Cash and cash equivalents, Beginning of year		20,990,702	13,483,524
Cash and cash equivalents, End of year		$ 29,490,843	$ 20,990,702

1. Reporting entity:

Alaris Royalty Corporation is a company domiciled in Calgary, Alberta, Canada. The consolidated financial statements as at the year ended December 31, 2016 comprise Alaris Royalty Corporation and its subsidiaries (together referred to as the "Corporation"). The Corporation's Canadian operations are conducted through a partnership (Alaris Income Growth Fund Partnership) and Salaris Small Cap. Royalty Corp. ("Salaris"). The Corporation's U.S. operations are conducted through two Delaware Corporations, Alaris USA ("Alaris USA") and Salaris USA Royalty Inc. ("Salaris USA"). The Corporation's operations consist primarily of investments in private operating entities, typically in the form of preferred limited partnership interests, preferred interest in limited liability corporations in the United States, loans receivable, or long-term license and royalty arrangements. The Corporation also has wholly-owned subsidiaries in the Netherlands, Alaris Cooperatief U.A. ("Alaris Cooperatief") and Salaris Cooperatief U.A. ("Salaris Cooperatief").

2. Statement of compliance:

(a) Statement of compliance

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

These consolidated financial statements were approved by the Board of Directors on March 7, 2017.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

Key judgments

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

Key estimates used in discounted cash flow projections

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

Collectability of amounts receivable

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

Utilization of tax pools

Management makes estimates on future taxable income that generates the calculations for the deferred income tax expense, assets and liabilities. Refer to note 10 for an analysis of the Corporation's ability to utilize certain non-capital losses.

Income taxes

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

3. Significant accounting policies:

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

(b) Revenue recognition

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

(c) Financial instruments

(i) Non-derivative financial assets

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

Loans and receivables

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

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

Cash and cash equivalents

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

Available-for-sale financial assets

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

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

After an exclusive letter of intent has been signed, the Corporation records all transaction costs incurred, in relation to the acquisition of investments classified as "available for sale", as an additional cost of the investment.

(ii) Derivative financial instruments

The Corporation holds derivative financial instruments to hedge its foreign currency exposure. The fair value of the forward contracts will be estimated at each reporting date and any gain or loss on the contracts will be recognized in profit or loss. The Corporation does not apply hedge accounting to these hedging contracts.

(d) Share capital

Common shares

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

(e) Equipment

(i) Recognition and measurement

Equipment is measured at cost less accumulated depreciation.

(ii) Depreciation

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

(f) Intangible assets

(i) Intangible assets

Intangible assets are comprised solely of the Corporation's investment in certain intellectual property of End of the Roll, which has a finite useful life and is measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Amortization

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

(g) Impairment

(i) Non-derivative financial assets

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

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

(ii) Available-for-sale financial assets

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

(h) Share based payment transactions

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

(i) Finance costs

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

(j) Income tax

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

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

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

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

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

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

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

(k) Earnings per Share

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

(l) Foreign currency transactions

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

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

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

(m) Foreign operations

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

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

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

(n) New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Corporation, except for IFRS 9, Financial Instruments, effective for fiscal years beginning on or after January 1, 2018, which could change the classification and measurement of financial assets. The Corporation does not plan to adopt this standard early and is currently analyzing the impact of the standard and will disclose the impact in its first quarter 2017 interim financial statements.

4. Financial risk management

Overview

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

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

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

Risk Management Framework

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

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

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

Credit Risk and Other Price Risk

Credit risk is the risk of financial loss to the Corporation if a partner or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investments. 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, 2016. See note 5 for additional information on distributions receivable that are past due.

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

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

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing in less than 90 days. The Corporation manages the credit exposure related to short-term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper. The Corporation held cash and cash equivalents of $29.5 million at December 31, 2016 (December 31, 2015 - $21.0 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 $200 million, four year revolving credit facility, and has $99.5 million balance drawn at December 31, 2016 ($77.5 million at December 31, 2015). The Corporation has the following financial instruments that mature as follows:

	Total	0-6 mo	6 mo-1 yr	1-2 years	3-4 years
Accounts payable and accrued liabilities	$ 3,057,457	$ 3,057,457	-	-	-
Dividends payable	4,905,368	4,905,368	-	-	-
Foreign exchange contracts	712,349	560,308	(132,577)	284,618	-
Income tax payable	2,007,244	2,007,244	-	-	-
Loans and borrowings	99,382,999	-	-	-	99,382,999
Total	$ 110,065,417	$ 10,530,377	$ (132,577)	$ 284,618	$ 99,382,999

Market Risk

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

Foreign currency exchange rate risk and commodity price risk

As a result of the investments in the United States, the Corporation has exposure to foreign currency exchange rate risk. The Corporation purchases forward exchange rate contracts to match expected distributions in US dollars on a rolling 12 month basis and also for between 35% to 60% of the expected distributions on a rolling 12 to 24 month basis (current notional value of US$49.1 million). The Corporation intends to purchase additional contracts each quarter so that approximately two years of distributions would be hedged against movement in the US Dollar compared to the Canadian dollar. As at December 31, 2016, if the US foreign exchange rate had been 1% lower with all other variables held constant, net income for the year would have been approximately $0.7 million lower, due to lower net income from US operations and a smaller unrealized foreign exchange gain during the period. An equal and opposite impact would have occurred to net income had foreign exchange rates been 1% higher. Additionally, the Corporation has loans in US dollars (external senior debt, intercompany and one to Federal Resources) that are translated at each balance sheet date with an unrealized foreign exchange gain or loss recorded on the statement of comprehensive income.

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, 2016, if interest rates had been 1% higher with all other variables held constant, net income for the year would have been approximately $1.1 million lower, due to higher interest expense. An equal and opposite impact would have occurred to net income had interest rates been 1% lower. The Corporation had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2016.

Capital Management

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

The Corporation manages capital by monitoring certain debt covenants set out in its credit facility. The Corporation has a maximum senior debt to contracted EBITDA of 1.75:1 (actual ratio is 1.40:1 at December 31, 2016) which can extend to 2.25:1 for a period of 90 days. Contracted EBITDA is defined as net income before interest expense, income taxes, depreciation and amortization and non-cash stock-based compensation expenses but the Corporation can include twelve months of revenue from partners that are less than twelve months from closing and must exclude revenue from partners for the portion that was redeemed or repurchased and for distributions that have been accrued and are past due. The Corporation has a fixed charge coverage ratio covenant of 1:1 (actual ratio is 1.14:1 at December 31, 2016). Additionally, a minimum tangible net worth requirement of $450 million is in place (actual amount is $648.5 million at December 31, 2016). Tangible net worth is defined as subordinated debt plus shareholders equity less intangible assets. The Corporation was in compliance with all debt covenants at December 31, 2016. In order to acquire more distributions and royalties, the Corporation can access its credit facility for investing activity. Any funding requirements for acquisitions in excess of availability under the credit facility will require, the Corporation to access public equity markets and manage the business within the bank covenants. There were no changes in the Corporation approach to capital management during the year ended December 31, 2016.

Fair Value of Financial Instruments

The Corporation's financial instruments as at December 31, 2016 and December 31, 2015 include cash and cash equivalents, trade and other receivables, promissory notes receivable, investments at fair value, foreign exchange forward contracts, accounts payable and accrued liabilities, and loans and borrowings. The fair value of cash and cash equivalents, and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity. The fair value of trade and other receivables, promissory notes is assessed at each reporting date and is determined based on the probability of collection, timing of the receipt of payment and the terms of each individual partners agreements. Loans and borrowings bear interest at a floating market rate and accordingly the fair market value approximates the carrying value. The fair values of the investments at fair value are estimated using an approach described in note 5.

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

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

The following items shown on the consolidated statement of financial position as at December 31, 2016 and 2015, are measured at fair value on a recurring basis. Discount rates and estimates used to determine changes in future distributions from each investment are the primary inputs in the fair value models and are generally unobservable. Accordingly, these fair value measures are classified as level 3.

31-Dec-16	Level 1	Level 2	Level 3	Total
Foreign exchange contracts	$ -	$ (712,349)	$ -	$ (712,349)
Investments at fair value	-	-	681,093,370	681,093,370
	$ -	$ (712,349)	$ 681,093,370	$ 680,381,021
31-Dec-15	**Level 1**	**Level 2**	**Level 3**	**Total**
Foreign exchange contracts	$ -	$ (5,345,488)	$ -	$ (5,345,488)
Investments at fair value	-	-	704,109,367	704,109,367
	$-	($ 5,345,488)	$ 704,109,367	$ 698,763,879

5. Investments

Investments at Fair Value

31-Dec-16	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LMS	$ 60,033,897	$ 655,901	$ 60,689,798	$ 36,214,585
KMH	54,800,000	589,147	55,389,147	26,946,832
Labstat	47,200,000	518,944	47,718,944	49,198,944
Agility Health	27,074,700	838,471	27,913,171	26,964,917
SCR	40,000,000	487,339	40,487,339	30,488,338
Sequel	99,004,500	769,091	99,773,591	109,497,583
Group SM	40,500,000	717,310	41,217,310	40,217,310
Kimco	46,063,700	1,343,744	47,407,444	31,166,324
Planet Fitness	53,880,000	844,988	54,724,988	59,062,328
DNT	94,290,000	758,273	95,048,273	99,197,034
FED	17,576,751	1,857,835	19,434,586	21,799,640
Sandbox	29,634,000	923,274	30,557,274	30,538,438
Providence	40,410,000	523,710	40,933,710	40,950,364
Matisia	24,010,276	662,095	24,672,371	24,672,373
Capitalized costs	-	298,360	298,360	298,360
Total LP and LLC Units	674,477,824	11,788,483	686,266,307	627,213,370
FED Loan Receivable	53,880,000	-	53,880,000	53,880,000
Total Investments at Fair Value	$ 728,357,824	$ 11,788,483	$ 740,146,307	$ 681,093,370
31-Dec-15	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LifeMark Health	$ 19,502,159	$ 499,894	$ 20,002,053	$ 38,467,202
LMS	54,228,822	333,280	54,562,102	33,028,822
Solowave	42,500,000	511,253	43,011,253	50,474,000
KMH	54,800,000	589,147	55,389,147	35,001,153
Labstat	47,200,000	518,944	47,718,944	46,998,944
Agility Health	27,870,660	863,121	28,733,781	27,724,336
SCR	40,000,000	487,339	40,487,339	32,988,339
Sequel	101,915,100	791,701	102,706,801	108,903,516
Group SM	40,500,000	717,310	41,217,310	42,617,310
Kimco	44,648,520	1,341,585	45,990,105	45,352,269
Planet Fitness	55,464,000	869,829	56,333,829	58,275,071
DNT	97,062,000	780,566	97,842,566	97,842,566
FED	9,706,200	1,567,062	11,273,262	11,273,262
MAHC	18,407,116	1,114,882	19,521,998	19,521,998
Capitalized costs	-	176,579	176,579	176,579
Total LP and LLC Units	653,804,577	11,162,492	664,967,069	648,645,367
FED Loan Receivable	55,464,000	-	55,464,000	55,464,000
Total Investments at Fair Value	$ 709,268,577	$ 11,162,492	$ 720,431,069	$ 704,109,367

The difference in the acquisition cost of Agility, Sequel, Kimco, Planet Fitness, DNT, and Federal Resources at December 31, 2016 and December 31, 2015 is due to foreign currency translation.

Assumptions used in fair value calculations:

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

The Corporation estimated the fair value of the available for sale financial assets (Investments at fair value) by evaluating a number of different methods:

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

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

(c) A liquidation value is used when there is concern around the collection of future distributions and the partner company is in default with the Corporation. The liquidation value is calculated using the formula specified in each of the Partnership agreements while considering an estimate of the current value of the private company to determine if there would be sufficient value to cover the liquidation amount. If not, the value is reduced to what the calculation estimates may be recovered (the liquidation value). The Corporation's investment in KMH was valued on this basis at December 31, 2016 and 2015.

From this analysis, management of the Corporation determined the fair value of the investments at fair value and Loan Receivable for each individual Partner and below is a summary of the fair value adjustments in 2016 and 2015.

Investments at Fair Value	Opening Fair Value	Additions	Disposals	Foreign Exchange Adjustment	Fair Value Adjustment	Closing Fair Value
2016						
LifeMark Health	$ 38,467,202	$ 27,045	(38,494,247)	$ -	$ -	$ -
Lower Mainland Steel	33,028,822	6,127,696	-	58,067	(3,000,000)	36,214,585
Solowave	50,474,000	-	(51,724,000)	-	1,250,000	-
KMH	35,001,153	-	(1,054,320)	-	(7,000,000)	26,946,832
Labstat	46,998,944	-	-	-	2,200,000	49,198,944
Agility	27,724,336	-	-	(759,420)	-	26,964,917
SCR	32,988,339	-	-	-	(2,500,000)	30,488,338
Sequel	108,903,516	-	-	(2,982,858)	3,576,925	109,497,583
Group SM	42,617,310	-	-	-	(2,400,000)	40,217,310
Kimco	45,352,269	2,730,773	-	(1,760,738)	(15,155,980)	31,166,324
Planet Fitness	58,275,071	-	-	(1,633,451)	2,420,708	59,062,328
DNT	97,842,566	-	-	(2,665,434)	4,019,902	99,197,034
FED	66,737,262	8,483,278	-	(1,243,120)	1,702,220	75,679,640
MAHC	19,521,998	242,757	(19,215,515)	(549,240)	-	-
Sandbox	176,579	30,295,536	-	66,321	-	30,538,438
Providence	-	38,128,711	-	2,821,653	-	40,950,364
Matisia	-	24,547,820	-	124,551	-	24,672,373
Capitalized Costs	-	298,360	-	-	-	298,360
Investments at Fair Value - December 31, 2016	$ 704,109,367	$ 110,881,976	$ (110,488,082)	$ (8,523,669)	$ (14,886,225)	$ 681,093,370
2015						
LifeMark Health	$ 36,920,000	$ 70,202	$ -	$ -	$ 1,477,000	$ 38,467,202
LMS	33,028,822	-	-	-	-	33,028,822
Solowave	44,000,000	-	-	-	6,474,000	50,474,000
KMH	52,001,153	-	-	-	(17,000,000)	35,001,153
Kilick	44,300,000	-	(44,300,000)	-	-	-
Labstat	46,998,944	-	-	-	-	46,998,944
Agility	24,081,586	-	-	4,652,195	(1,009,445)	27,724,336
SCR	40,487,339	-	-	-	(7,499,000)	32,988,339
Sequel	86,888,776	-	-	16,788,644	5,226,095	108,903,516
Group SM	42,617,310	-	-	-	-	42,617,310
Kimco	34,903,637	4,341,738	-	6,744,731	(637,836)	45,352,269
Planet Fitness	41,387,355	6,316,419	-	8,630,056	1,941,240	58,275,070
DNT	-	87,836,804	-	10,005,762	-	97,842,566
FED	-	59,782,456	-	6,954,806	-	66,737,262
MAHC	-	19,626,183	-	(104,185)	-	19,521,998
Capitalized Costs	26,813	176,580	(26,813)	-	-	176,580
Investments at Fair Value - December 31, 2015	$ 527,641,735	$ 178,150,382	$ (44,326,813)	$ 53,672,009	$ (11,027,946)	$ 704,109,367

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

At December 31, 2015, the Corporation held 6,750,000 preferred units in LifeMark Health. On March 4, 2016, the Corporation redeemed all of its preferred units in LifeMark in exchange for $30 million in cash and an $8.4 million promissory note with interest at 11.15% from Centric Health Corporation (“Centric”). The promissory note, along with all interest accrued and owing, was repaid in full by Centric on March 23, 2016. The Corporation realized a gain on redemption of $18.6 million that had accumulated through comprehensive income over the life of the investment.

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

The Corporation holds 542,288 preferred partnership units ("LMS Units") in Lower Mainland Steel and 4,350,000 units ("LMS additional units") in a newly created partnership formed by LMS to complete an acquisition in 2016, the combined units comprise the Corporations investment in Lower Mainland Steel ("LMS Investment").

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

On March 16, 2016 Alaris made an additional contribution to LMS of US$4.35 million ($5.8 million CAD) in exchange for an annual distribution of US$622,000 (approximately $818,000 CAD) (the "Additional LMS Distribution") for the first full year following closing (for 2016 Alaris will receive the pro-rata portion of the Additional LMS Distribution based on the calendar days remaining in the year). The Additional LMS Distribution will be adjusted annually (with the first reset being January 1, 2018), subject to a 6% collar. LMS used the proceeds from Alaris to fund a portion of the purchase price for a strategic acquisition of a rebar fabricator and installer in California.

LMS has the option at any time after April 1, 2010 to repurchase all (but not less than all) of the LMS Units at a pre-negotiated premium to the original purchase price. LMS has the option at any time after March 22, 2019 to repurchase all (but not less than all) of the LMS additional units.

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

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

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

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

At December 31, 2016 there are no outstanding trade receivables (December 31, 2015 - $0.8 million) and a $3.5 million (December 31, 2014 - $3.5 million) promissory note owing from KMH, which is over 90 days outstanding. At December 31, 2016, the fair value is approximately $26.9 million as KMH repaid $1.1 million of the $28 million owed to the Corporation as a result of the Corporation demanding that the units be repurchased. During 2016, the fair value of the KMH investment was reduced to approximately $28.0 million (December 31, 2014 - $35 million) with the Corporation recognizing a permanent impairment of $7 million to reflect negotiations with KMH that would see more of the fair value paid in cash compared to a long-term note. No distributions have been accrued in 2016.

d. Investment in Solowave Design, LP ("Solowave"):

At December 31, 2015 the Corporation held 4.25 million preferred units in Solowave Design Inc. ("Solowave"). On September 30, 2016 Solowave sold its children's play division which represented the majority of Solowave's earnings and resulted in the repurchase of all Alaris Preferred Units in Solowave for total proceeds to Alaris of $44.6 million. The Corporation recognized a gain of $1.5 million through earnings as proceeds on redemption ($44.6 million) exceeded the total capital invested ($42.5 million) plus costs.

e. Investment in Labstat International, LP ("Labstat"):

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

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

In 2013, the Corporation agreed to restructure the form of its distributions for a four year period. The Corporation agreed to a reduced fixed portion of the distribution of $3.42 million (7.25% of the original acquisition cost) with a variable portion in the form of a sweep of 75% of the excess cash flow of the business as long as certain senior lender covenants are met up to a maximum of $3.35 million. Due to a successful 2016 fiscal year for Labstat, the cash flow sweep along with the fixed portion produced distributions of $5.5 million in 2016.

In June 2012, the Corporation provided a $1.25 million demand note (interest at 15.3% per annum) to temporarily bridge financing of the acquisition of the previous owners interest. During 2013, the Corporation provided $5.7 million in demand notes (interest at 7.0% per annum) to provide additional working capital. Labstat repaid a portion of the notes in 2015 and at December 31, 2016, $3.7 million remains outstanding along with $0.4 million of accrued interest on the promissory note.

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

f. Investment in Agility Health, LLC ("Agility Health"):

The Corporation, through its wholly-owned subsidiary Alaris USA Inc., holds 1,810 Class B units and 200 Class C units ("Agility Units") in Agility Health, LLC, a U.S. corporation acquired for an aggregate acquisition cost of US$20.1 million.

Pursuant to the Agility Health LLC agreement (the "Agility LLC Agreement") dated December 19, 2012, the Agility Units entitle the Corporation to receive an annual preferred distribution (the "Preferred Distribution") in priority to distributions on Agility's other units in an amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in Agility's same clinic sales for the previous fiscal year, subject to a maximum increase or decrease of 6%. Distributions on the Agility Units are receivable monthly and are denominated in US dollars. Agility has the option at any time after December 19, 2015 to repurchase all (but not less than all) of the Agility Units at a pre-negotiated premium to the original purchase price.

The Corporation has demanded repayment of its preferred units and Agility is working towards a repurchase of those units for US$22.3 million as well as the repayment of all accrued and unpaid distributions of US$1.7 million. The conditions of the demand to be repurchased include monthly instalments to be applied against unpaid distributions owing, in addition to the regular monthly distributions until the units are repurchased.

g. Investment SCR Mining and Tunneling, LP ("SCR"):

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

Pursuant to the partnership agreement dated May 23, 2013, the SCR Units entitle the Corporation to receive an annual preferred distribution in priority to distributions on SCR's other partnership units in an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in SCR's gross revenues for the previous fiscal year. Distributions from SCR were received up to and including May 2016, were accrued for June 2016, but were suspended temporarily beginning in July 2016.

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

h. Investment in Sequel Youth and Family Services, LLC ("Sequel"):

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

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

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

i. Investment in SM Group International, LP ("Group SM"):

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

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

Distributions on the Group SM units were suspended by Group SM's senior lender beginning in July 2015. Group SM has a commitment letter with a new lender that specifies under what financial scenarios distributions can be restarted but a timetable has not been defined.

Over the past two years, the Corporation has loaned $17 million to Group SM by way of promissory notes (interest rate 8%) and as of December 31, 2016, $1.5 million of accrued interest is owing.

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

j. Investment Kimco Holdings, LLC ("Kimco"):

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

Pursuant to the operating agreement dated June 6, 2014, the Kimco Units entitle the Corporation to receive an annual preferred distribution in priority to distributions on Kimco's other LLC units in an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in Kimco's gross revenues for the previous fiscal year. Distributions on the Kimco units were suspended by Kimco's senior lender beginning in July 2015 and a timetable for restarting distributions has not been set. The Corporation ceased accruing distributions from Kimco in July 2016. Alaris continues to work with the senior lender, which has led to some recent changes to Kimco management and in the company's cost structure in order to improve cash flow management and set a clear path to the resumption of distributions.

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

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

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

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

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

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

l. Investment in DNT, LLC ("DNT"):

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

Pursuant to the LLC agreement dated June 1, 2015, the DNT units entitle the Corporation to receive an annual preferred distribution of US$10.5 million in priority to distributions on DNT's other LLC units in an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in DNT's gross revenues for the previous fiscal year. Distributions on the DNT units are receivable monthly.

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

m. Investment in Federal Resources Supply Company ("FED"):

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

Pursuant to the loan agreement dated June 26, 2015, in each fiscal year of the 15 year loan, the Corporation is entitled to receive interest payments of US$7.05 million in priority to distributions on FED's other common units. The Corporation is accounting for this loan as an available for sale financial asset. In addition, commencing in January, 2017, the FED Preferred Shares will entitle Alaris to receive an annual preferred dividend based on an increase to FED's gross revenues (subject to a 6% collar). Such annual dividend will be adjusted (up or down) each year based on any increases or decreases in FED's "gross revenues" for its immediately preceding fiscal year, subject to a maximum increase or decrease of six percent (6%) per year. Interest payments and future dividends from FED are received monthly.

On April 29, 2016 Alaris contributed an additional US$6.5 million ($8.15 million CAD) to FED in exchange for an annual distribution of US$0.91 million (the "Additional FED Distribution") for the first full year following closing (for 2016 Alaris will receive the pro-rata portion of the Additional FED Distribution based on the calendar days remaining in the year). The Additional FED Distribution will be adjusted annually (with the first reset being January 1, 2018), subject to a 6% collar. FED's used the proceeds from Alaris to fund a portion of the purchase price for a strategic acquisition of a single point training and support provider to complement FED's existing business.

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

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

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

o. Investment in Sandbox Acquisitions, LLC ("Sandbox")

The Corporation holds 556 Class B units, 1,444 Class C units and 1 Class D unit in Sandbox Acquisitions, LLC along with 200,000 Preferred units in Sandbox Advertising Limited Partnership (collectively the "Sandbox units") acquired on March 8, 2016 for US$22.0 million. Sandbox offers a wide range of marketing and advertising services including strategic marketing and planning, creative development for all media and digital strategy solutions including CRM and data analytics for clients in a variety of industries within the US and Canada.

Pursuant to the LLC agreement dated March 8, 2016, the Sandbox units entitle the Corporation to receive an initial annual preferred distribution of US$3.3 million in priority to distributions on Sandbox's other LLC units. After the initial annual preferred distribution the distribution is an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in Sandbox's gross revenues for the previous fiscal year subject to a maximum increase or decrease of 5%. Distributions on the Sandbox units are receivable monthly.

Sandbox has the option at any time after March 8, 2019 to repurchase the Sandbox units at a pre-negotiated premium to the original purchase price.

p. Investment in Providence Industries, LLC

On April 1, 2016 the Corporation, through its wholly-owned subsidiary Alaris USA Inc., collectively contributed US$30.0 million to Providence Industries, LLC ("Providence"). Providence is a leading provider of design, engineering, development, manufacturing and sourcing services for international apparel companies and retailers.

Pursuant to agreements dated April 1, 2016, the Corporation is entitled to receive an initial annual preferred distribution of US$4.5 million in priority to distributions on Providence's common shares. After the initial annual preferred distribution, the distribution is an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in Providence's same customer revenues for the previous fiscal year subject to a maximum increase or decrease of 5%. Distributions on the Providence units are receivable monthly.

q. Investment in Matisia

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

Royalties and Distributions:

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

Royalties and distributions:	Year ended December 31, 2016	
	2016	2015
Sequel	$ 15,937,394	$ 14,796,018
DNT	13,920,727	8,016,872
FED	10,122,384	4,653,448
Planet Fitness	8,249,694	7,207,379
MAHC (Note 5n)	7,957,796	-
Group SM	6,376,536	6,703,413
Labstat	5,499,996	5,574,704
Solowave	5,159,592	6,490,055
LMS	4,653,366	4,167,532
Providence	4,419,525	-
Agility Health	4,073,596	4,075,610
Sandbox	3,507,130	-
SCR	3,007,998	6,400,000
Kimco	2,816,222	6,007,416
End of the Roll	1,218,611	1,177,128
Matisia	835,377	-
LifeMark Health	730,216	4,197,498
KMH	-	1,890,000
Killick	-	537,715
Total Distributions	$ 98,486,160	$ 81,894,788
Other Income		
Interest	1,556,213	951,683
Total Income	$ 100,042,373	$ 82,846,471

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

Trade & Other Receivables Continuity	31-Dec-16	31-Dec-15
Group SM (1)	11,217,992	3,649,441
Kimco (2)	-	3,251,858
Agility (3)	2,382,291	-
Labstat (4)	2,467,655	2,301,689
SCR (5)	501,000	-
Other Receivables (6)	193,267	1,374,997
Balance at December 31, 2016	16,762,204	10,577,985

(1) Group SM includes unpaid distributions from July 2015 through December 2016 plus accrued interest on short term loans the full amount of which is expected to be collected in 2017. To receive the entire amounts outstanding in 2017 it is required that Group SM be ruled in favor and collect the proceeds from an on-going international arbitration.

(2) The entire Kimco accounts receivables (US$4.5 million) including opening 2016 and amounts accrued during the period ending December 31, 2016 were reclassified to a long-term accounts receivable due to collections no longer being expected in 2017.

(3) Agility represents US$1.7 million in unpaid distributions which were accrued from March 2016 to September 2016, as they underwent a strategic process. Amounts are expected to be collected in 2017. Agility is currently under default of its partnership agreement but has agreed to make incremental monthly installments (in addition to their contracted distribution) until the strategic process has been completed.

(4) Labstat includes the cash flow sweep for 2016 distributions. The Corporation has collected $1 million subsequent to December 31, 2016 with the remainder to be collected in April 2017 as per the terms of the agreement with Labstat.

(5) SCR represents 3% with unpaid distributions for June 2016.

(6) Other includes accrued interest of approximately $0.75 million at December 31, 2015 relating to the KMH promissory note and approximately $0.11 million from a past partner. An allowance for doubtful accounts was recorded in 2016 due to uncertainty in collecting these unpaid balances.

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

Promissory Notes and Other Receivables:

As part of being a long-term partner with the companies the Corporation holds preferred interests in, from time to time the Corporation has offered alternative financing solutions to assist with short-term needs of the individual businesses. The terms of the various notes differ at December 31, 2016, the following is a summary of the outstanding promissory notes.

Promissory Notes and Other Receivables	31-Dec-16	31-Dec-15
Current		
Group SM (3)	$17,000,000	$10,250,000
Labstat (2)	3,734,945	-
SHS (4,6)	1,187,500	1,500,000
Total Current	$21,922,445	$11,750,000
Non-Current		
KMH (1,6)	$3,500,000	$3,500,000
Labstat (2)	-	3,734,945
Kimco (5)	4,391,312	-
Total Non-current	$7,891,312	$7,234,945
Total	$29,813,757	$18,984,945

(1) The KMH note is a demand note and payment has been demanded though timing of collection is uncertain. The note is secured by certain assets of KMH's business.

(2) Labstat note (interest at 7%) is due July 2017, and is expected to be received in full.

(3) Group SM note is a demand note (interest at 8%) and is expected to be repaid in the next twelve months.

(4) SHS Services Management, LP ("SHS") note is secured against certain assets of the SHS business. The Corporation received partial settlement on the SHS note of $312,500 in March 2016 and subsequent to December 31, 2016 the Corporation was notified that a further settlement between SHS and a third party will result in another $400,000. The remainder of the loan is expected to be repaid in 2017 out of the conclusion of the receivership process.

(5) All unpaid and previously accrued distributions receivables, totaling US$4.5 million were reclassified to long term receivables during the year ended December 31, 2016. Due to the long-term collection horizon the company discounted to the receivable over a five year period resulting in a US$1.2 million reduction to the carrying amount of the outstanding balance.

(6) No interest is currently being accrued on the KMH and SHS notes.

Intangible Assets:

The Corporation holds intangible assets in End of the Roll, net of accumulated amortization of $1,068,465 (December 31, 2015 - $977,528), of $6,206,455 (December 31, 2015 - $6,297,392).

6. Equipment:

Equipment consists of leasehold improvements, furniture and fixtures, and computer equipment. Net book value of $647,445 (2015 – $791,941) is net of accumulated depreciation of $488,547 (December 31, 2015 - $301,111). During the year ended December 31, 2016, the Corporation acquired assets with a cost of $43,099 (2015 - $794,611) and depreciation of $187,595 (December 31, 2015 - $203,170).

7. Share capital:

Issued Common Shares	Number of Shares	Amount($)
Balance at January 1, 2015	32,072,358	$ 498,363,066
Issued by short form prospectus	3,771,655	115,035,478
Short form prospectus costs, net of tax	-	(4,010,958)
Issued after director RSU vesting	170,585	3,795,607
Options exercised in the period	288,138	3,956,988
Fair value of options exercised in the period	-	486,592
Balance at December 31, 2015	36,302,736	$ 617,626,773
Issued after employee vesting	500	-
Cashless options exercised in the period	32,821	-
Fair value of options exercised in the period	-	266,045
Balance at December 31, 2016	36,336,057	$ 617,892,818

The Corporation has authorized, issued and outstanding, 36,336,057 voting common shares as at December 31, 2016.

Weighted Average Shares Outstanding	31-Dec-16	31-Dec-15
Weighted average shares outstanding, basic	36,335,524	33,960,479
Effect of outstanding options	73,951	186,024
Effect of outstanding RSUs	301,664	243,852
Weighted average shares outstanding, fully diluted	36,711,139	34,390,355

669,799 options were excluded from the calculation as they were anti-dilutive at December 31, 2016.

Dividends

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

In each month of 2016, the Corporation declared a dividend of $0.135 per common share ($1.62 per share and $58,842,317 in aggregate). In each of the first five months of 2015, the Corporation declared a dividend of $0.125 per common share; for June the Corporation declared a dividend of $0.13 per common share; and for July through December the Corporation declared a dividend of $0.135 per common share ($53,517,530 in aggregate).

8. Loans and borrowings:

As at December 31, 2016 the Corporation has a $200 million credit facility with a syndicate of Canadian chartered banks. The interest rate on the facility is prime plus 2.25% (4.95% at December 31, 2016) when Funded Debt to Contract EBITDA is below 1.75:1 and prime plus 2.75% when Funded Debt to Contract EBITDA is above 1.75:1. The covenants on the facility include a maximum debt to EBITDA of 1.75:1 (can extend to 2.25:1 for up to 90 days), minimum tangible net worth of $450 million; and a minimum fixed charge coverage ratio of 1:1. At December 31, 2016, the facility was $99.5 million drawn.

At December 31, 2016, the Corporation met all of its covenants as required by the facility. Those covenants include a maximum debt to EBITDA of 1.75:1 (actual ratio is 1.40:1 at December 31, 2016); minimum tangible net worth of $450.0 million (actual amount is $648.5 million at December 31, 2016); and a minimum fixed charge coverage ratio of 1:1 (actual ratio is 1.14:1 at December 31, 2016).

Debt Continuity	Amount ($USD)	Amount ($CAD)
Balance at December 31, 2015		$ 77,447,075
Senior debt repayment (LifeMark)		(22,000,000)
Senior debt advance (Sandbox)	22,000,000	29,697,800
Senior debt advance (Providence)	24,000,000	31,764,000
Senior debt advance (FED add-on, Group SM Prom Note)		14,481,500
Senior debt advance (Matisia)	18,000,000	23,713,200
Senior debt repayment (Solowave)		(35,455,076)
Senior debt repayment (MAHC)	(16,000,000)	(21,408,000)
Unrealized FX (Gain) / Loss on US Denominated debt		1,142,500
Balance at December 31, 2016		$ 99,382,999

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 501,583 and issued 301,664 RSUs to management and Directors as of December 31, 2016. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (213,287) do not vest until the end of a three-year period (41,119 RSUs had vested at December 31, 2016 but were not released until January 2017, 11,088 in July 2017, 119,000 in July 2018; and 42,080 in 2019) and are subject to certain performance conditions relating to operating cash flow per share. The stock-based compensation expense relating to the RSU Plan is based on the issue price at the time of grant and management's estimate of the future performance conditions and will be amortized over the thirty-six month vesting period.

The Corporation has reserved 2,268,077 and issued 1,726,182 options as of December 31, 2016. The options outstanding at December 31, 2016, have an exercise price in the range of $16.87 to $33.87, a weighted average exercise price of $26.94 and a weighted average contractual life of 1.96 years (2015 – 2.87 years).

For the year ended December 31, 2016, the Corporation incurred stock-based compensation expenses of $4,368,640 (2015 - $3,535,268) which includes: $3,245,830 (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2015 - $2,340,386); and $1,122,810 (non-cash expense) for the amortization of the fair value of outstanding stock options (2015 - $1,194,882).

Options Summary	Weighted Avg Exercise Price 2016	Number of Options - 2016	Weighted Avg Exercise Price 2015	Number of Options - 2015
Outstanding at January 1	$26.93	1,966,484	$28.58	1,955,357
Exercised during the year	$15.76	(70,500)	$15.08	(357,947)
Forfeited during the year	$31.50	(169,802)	$29.37	(169,773)
Granted during the year	$0.00	-	$24.78	538,847
Outstanding at December 31	$26.94	1,726,182	$26.93	1,966,484
Exercisable at December 31	$17.19	1,114,662	$25.67	843,657

The following table summarizes the options outstanding and exercisable as at December 31, 2016:

Exercise price	Number outstanding	Weighted average remaining life (years)	Number exercisable
$16.87	122,525	0.10	122,525
$23.53	428,011	0.67	428,011
$33.87	411,060	1.56	308,295
$26.79	45,000	2.05	22,500
$31.15	193,739	2.59	96,870
$33.06	20,000	2.70	10,000
$24.78	505,847	3.57	126,462
	1,726,182	1.96	1,114,662

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

Issue Date	Dividend Yield	Expected Volatility	Risk Free Rate of Return	Expected Life	Weighted Average Value
Jul-15	6.51%	25.01%	0.96%	4.325	$2.25

Subsequent to December 31, 2016, the Corporation issued 35,711 shares as a result of the exercise of options exercised and 72,369 shares as a result of vested RSUs. Subsequent to December 2016, the Corporation granted 521,014 options at a price of $22.47.

10. Income taxes:

The Corporation's consolidated effective tax rate for the year ended December 31, 2016 was 26.29% (year ended December 31, 2015 – 26.47%). The change in the Corporation's consolidated effective tax rate from 2015 was caused by income being allocated to different provinces than in the prior year.

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

Income Tax Expense	2016	2015
Earnings before income taxes	$ 86,142,025	$ 72,176,633
Combined federal and provincial statutory income tax rate	26.29%	26.47%
Expected income tax provision	$ 22,646,738	$ 19,105,155
Rate differences of foreign jurisdictions	(5,151,392)	(3,457,367)
Non-taxable portion of capital gains	(743,450)	(2,137,688)
Non-deductible expense and other	1,234,224	1,453,803
Prior period adjustment	1,602,526	(648,746)
Unrecognized deferred tax asset	-	-
Balance at December 31, 2016	$ 19,588,646	$ 14,315,157

Cash taxes paid during the year were $7,899,747 (2015 - $12,492,285).

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):		2016		2015
Non-capital losses and unclaimed scientific research and development expenses ("SRED") net of partnership deferral		-		$ 1,330,848
Equipment		(1,938)		(4,095)
Share issue costs		2,163,873		3,040,449
Intangible assets		(1,691,445)		(1,716,357)
Investment tax credits		(2,262,937)		(2,893,398)
Preferred partnership units		(17,994,856)		(16,257,183)
Partnership deferral		50,248		(1,581,013)
Investment in sub or other items		4,104,515		3,584,307
Derivatives		(3,005,562)		(3,468,179)
Foreign exchange on loan receivable		(551,564)		(765,561)
Distributions to be taxed in future years		(3,267,914)		(760,612)
Balance at December 31, 2016	$	(22,457,580)	$	(19,490,794)

As at December 31, 2016, the Corporation has unused federal investment tax credits which expire from time to time as follows:

Unused Federal Investment Tax Credits	2016
2022	$ 2,365,951
2023	1,840,598
2024	647,774
Balance at December 31, 2016	$ 4,854,323

Movement in deferred tax balances during the year		Deferred Income Taxes
Balance at January 1, 2015	$	(7,712,668)
Recognized in profit and loss		(12,052,333)
Reduction to investment tax credit		2,408,586
Recognized directly in equity		1,443,900
Recognized in other comprehensive income		(2,127,342)
Currency translation and other		(1,450,937)
Balance at December 31, 2015		(19,490,794)
Recognized in profit and loss		(12,484,287)
Reduction to investment tax credit		3,659,484
Recognized directly in equity		-
Recognized in other comprehensive income		5,612,763
Currency translation and other		245,254
Balance at December 31, 2016		$ (22,457,580)

In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009. In 2016, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation years ended December 31, 2009 through December 31, 2015 (the "Reassessments"). Pursuant to the Reassessments, the deduction of approximately $121 million of non-capital losses and utilization of $2.3 million in investment tax credits by the Corporation was denied, resulting in reassessed taxes and interest of approximately $40.1 million. Subsequent to filing the notice of objection for the July 14, 2009 taxation year, Alaris received an additional proposal from the CRA pursuant to which the CRA is proposing to apply the general anti avoidance rule to deny the use of non-capital losses, accumulated scientific research and experimental development expenditures and investment tax credits. The proposal does not impact the Corporation's previously disclosed assessment of the total potential tax liability (including interest) or the deposits required to be paid in order to dispute the CRA's reassessments. The Corporation has received legal advice that it should be entitled to deduct the non-capital losses and as such, the Corporation remains of the opinion that its July 14, 2009 tax return, and each return filed after that date, were filed correctly and it will be successful in appealing such Reassessment. The Corporation intends to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amount as a deposit to the Canada Revenue Agency. The Corporation paid $10.7 million in deposits in 2015 and an additional $4.3 million in 2016 relating to these reassessments, recorded as a long term deposit on the balance sheet. It is possible that the Corporation may be reassessed with respect to the deduction of its non-capital losses in respect of its tax filings subsequent to December 31, 2016, on the same basis. Remaining investment tax credits of $4.9 million at December 31, 2016 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 of approximately $4.9 million at December 31, 2016.

Tax Year	ITCs Applied	Losses Applied	Estimated tax and interest
July 2009		$ 10,532,000	$ 4,178,000
December 2009		1,916,000	736,000
December 2010		14,646,000	5,396,000
December 2011		14,992,000	5,031,000
December 2012		16,774,000	4,386,000
December 2013		22,642,000	6,423,000
December 2014		29,153,000	8,306,000
December 2015	2,315,000	10,560,000	5,620,000
Balance at December 31, 2016	$ 2,315,000	$ 121,215,000	$ 40,076,000

11. Related Parties

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

Key Management Personnel	2016	2015
Base salaries and benefits	$876,492	$876,492
Bonus	519,480	360,000
Non cash stock-based compensation	520,397	2,611,211
Total for year ended December 31, 2016	$1,916,369	$3,847,703

12. Commitments, Contingencies and Guarantees:

During 2016, as part of the investment activity with Group SM, the Corporation entered into an agreement to guarantee up to a maximum of $5 million of Group SM's senior debt. The fair value of the guarantee was estimated to be nominal. Subsequent to year end, the maximum exposure of the guarantee was increased to $10 million

In July 2015, the Corporation signed a five-year lease at a new location. The Corporation's annual commitments under the lease are as follows:

Commitments and Contingencies	
2017	$ 410,494
2018	421,033
2019	431,572
2020	215,786
	$ 1,478,885

13. Subsequent Events:

Subsequent to December 31, 2016, the Corporation contributed US$4 million to C&C Communications LLC ("ccComm") for an annualized distribution of US$0.6 million.

Subsequent to December 31, 2016, the Corporation also gave formal consent to Sequel to enter into a merger agreement with a third party, whereby Alaris will receive a cash distribution of US$30 million from Sequel as well as retain US$62.2 million of new preferred equity in Sequel, a total notional value of US$92.2 million on Alaris' invested capital of US$73.5 million (approximately 7.5x the current annual distribution). Alaris will receive a continuing annual distribution of US$6.2 million representing a 14.2% yield on Alaris' remaining cost base in Sequel of US$43.5 million. The Sequel Transaction is subject to approvals and conditions with an expected closing date of Q2 2017.