

Unaudited Condensed Consolidated Interim Financial
Statements of

ALARIS ROYALTY CORP.

For the three months ended March 31, 2017

Alaris Royalty Corp.

Condensed consolidated statement of financial position (unaudited)

As at March 31

	Note	31-Mar 2017	31-Dec 2016
Assets			
Cash and cash equivalents		\$ 19,536,409	\$ 29,490,843
Prepayments		1,476,765	2,097,070
Foreign exchange contracts		181,863	-
Trade and other receivables	4	16,799,412	16,762,204
Investment tax credit receivable	8	2,962,070	3,653,719
Promissory notes receivable	4	26,922,445	21,922,445
Current Assets		67,878,964	73,926,281
Promissory notes and other receivables	4	7,844,367	7,891,312
Deposits	8	16,324,033	16,255,771
Equipment		627,133	647,445
Intangible assets	4	6,183,722	6,206,456
Investments at fair value	4	680,685,841	681,093,370
Investment tax credit receivable	8	597,452	1,200,604
Non-current assets		712,262,548	713,294,958
Total Assets		\$ 780,141,512	\$ 787,221,239
Liabilities			
Accounts payable and accrued liabilities		\$ 2,307,309	\$ 3,057,457
Dividends payable		4,919,959	4,905,368
Foreign exchange contracts		-	712,349
Income tax payable		2,340,897	2,007,244
Current Liabilities		9,568,165	10,682,418
Deferred income taxes	8	21,760,450	22,457,580
Loans and borrowings	6	98,619,798	99,382,999
Non-current liabilities		120,380,248	121,840,579
Total Liabilities		\$ 129,948,413	\$ 132,522,997
Equity			
Share capital	5	\$ 620,132,983	\$ 617,892,818
Equity reserve	7	10,229,325	11,628,364
Fair value reserve		(27,930,940)	(27,930,940)
Translation reserve		20,593,671	23,029,120
Retained earnings		27,168,060	30,078,880
Total Equity		\$ 650,193,099	\$ 654,698,242
Total Liabilities and Equity		\$ 780,141,512	\$ 787,221,239

Commitments, contingencies & guarantees 9

On behalf of the Board:

Director (signed) "Jack C. Lee"

Director (signed) "Mary Ritchie"

Alaris Royalty Corp.

Condensed consolidated statement of comprehensive income / loss (unaudited)

For the period ended March 31

	Note	Three months ended March 31	
		2017	2016
Revenues			
Royalties and distributions	4	\$ 20,390,791	\$ 24,252,610
Interest and other	4	489,843	313,370
Total Revenue		20,880,634	24,565,980
Other income			
Gain on partner redemption		-	18,565,507
Realized gain/(loss) on foreign exchange contracts		(349,365)	(1,340,278)
Total Other income / (loss)		(349,365)	17,225,229
Salaries and benefits		636,351	565,247
Corporate and office		721,220	945,976
Legal and accounting fees		538,376	806,992
Non-cash stock-based compensation	7	841,126	1,100,517
Depreciation and amortization		66,747	69,061
Total Operating Expenses		2,803,820	3,487,793
Earnings before the undernoted		17,727,449	38,303,416
Finance costs	8	2,014,096	1,516,730
Unrealized (gain)/loss on foreign exchange contracts		(894,212)	(3,870,701)
Unrealized foreign exchange loss/(gain)		2,127,744	14,485,640
Earnings before taxes		14,479,821	26,171,747
Current income tax expense		1,829,459	1,011,012
Deferred income tax expense		801,306	4,319,067
Total income tax expense		2,630,765	5,330,079
Earnings		11,849,056	20,841,668
Other comprehensive income			
Transfer on redemption of investments at fair value		-	(18,686,309)
Tax effect of items in other comprehensive income		-	2,491,244
Foreign currency translation differences		(2,435,449)	(11,504,299)
Other comprehensive (loss) for the period, net of income tax		(2,435,449)	(27,699,364)
Total comprehensive income / (loss) for the period		9,413,607	(6,857,696)
Earnings per share			
Basic earnings per share	5	\$0.33	\$0.57
Fully diluted earnings per share	5	\$0.32	\$0.57
Weighted average shares outstanding			
Basic	5	36,450,803	36,302,736
Fully Diluted	5	36,784,103	36,657,979

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the period March 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 / (loss) for the period							
Earnings for the period		\$ -	\$ -	\$ -	\$ -	\$ 20,841,667	\$ 20,841,667
Other comprehensive income / (loss)							
Transfer on redemption of investments at fair value		-	-	(18,686,309)	-	-	(18,686,309)
Tax effect on items in other comprehensive income		-	-	2,491,244	-	-	2,491,244
Foreign currency translation differences		-	-	-	(11,504,299)	-	(11,504,299)
Total other comprehensive income / (loss)		-	-	(16,195,065)	(11,504,299)	-	(27,699,364)
Total comprehensive income / (loss) for the period		\$ -	\$ -	\$ (16,195,065)	\$ (11,504,299)	\$ 20,841,667	\$ (6,857,697)
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	7	\$ -	\$ 1,100,517	\$ -	\$ -	-	\$ 1,100,517
Dividends to shareholders	5	-	-	-	-	(14,702,607)	(14,702,607)
Total transactions with Shareholders of the Company		-	\$ 1,100,517	-	-	(14,702,607)	(13,602,090)
Balance at March 31, 2016		\$ 617,626,773	\$ 8,626,284	\$ (14,320,162)	\$ 16,146,892	\$ 28,506,879	\$ 656,586,666

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the period March 31, 2017

	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2017		\$ 617,892,818	\$ 11,628,364	(\$ 27,930,940)	\$ 23,029,120	\$ 30,078,880	\$ 654,698,242
Total comprehensive income / (loss) for the period							
Earnings for the period		\$ -	\$ -	\$ -	\$ -	\$ 11,849,056	\$ 11,849,056
Other comprehensive loss							
Foreign currency translation differences		-	-	-	(2,435,449)	-	(2,435,449)
Total other comprehensive loss		-	-	-	(2,435,449)	-	(2,435,449)
Total comprehensive income / (loss) for the period		\$ -	\$ -	\$ -	\$ (2,435,449)	\$ 11,849,056	\$ 9,413,607
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	7	\$ -	\$ 841,126	\$ -	\$ -	\$ -	\$ 841,126
Dividends to shareholders	5	-	-	-	-	(14,759,875)	(14,759,875)
Options / RSU's exercised in the period		2,240,165	(2,240,165)	-	-	-	-
Total transactions with Shareholders of the Company		2,240,165	(1,399,039)	-	-	(14,759,875)	(13,918,749)
Balance at March 31, 2017		\$ 620,132,983	\$ 10,229,325	\$ (27,930,940)	\$ 20,593,671	\$ 27,168,060	\$ 650,193,099

Alaris Royalty Corp.

Condensed consolidated statement of cash flows (unaudited)

For the period ended March 31

	Three months ended March 31	
	2017	2016
Cash flows from operating activities		
Earnings from the period	\$ 11,849,056	\$ 20,841,668
<i>Adjustments for:</i>		
Finance costs	2,014,096	1,516,730
Deferred income tax expense	8 801,306	4,319,067
Depreciation and amortization	66,747	69,061
Gain on partner redemption	-	(18,565,507)
Unrealized gain on foreign exchange contracts	(894,212)	(3,870,701)
Unrealized foreign exchange loss	2,127,744	14,485,640
Non-cash stock-based compensation	841,126	1,100,517
	<u>\$ 16,805,863</u>	<u>\$ 19,896,475</u>
<i>Change in:</i>		
- trade and other receivables	4 9,737	(7,119,573)
- income tax receivable / payable	8 333,653	-
- prepayments	620,305	768,936
- accounts payable and accrued liabilities	(750,148)	2,066,935
	<u>17,019,410</u>	<u>15,612,773</u>
Cash generated from operating activities	<u>17,019,410</u>	<u>15,612,773</u>
Finance costs	<u>(2,014,096)</u>	<u>(1,516,730)</u>
Net cash from operating activities	<u>\$ 15,005,314</u>	<u>\$ 14,096,043</u>
Cash flows from investing activities		
Acquisition of equipment	\$ (23,701)	\$ (26,010)
Acquisition of preferred units	4 (5,374,671)	(37,450,626)
Proceeds from partner redemptions	4 500,000	38,396,400
Promissory notes issued	4 (5,000,000)	(2,500,000)
Promissory notes repaid	-	312,500
	<u>\$ (9,898,372)</u>	<u>\$ (1,267,736)</u>
Net cash used in investing activities	<u>\$ (9,898,372)</u>	<u>\$ (1,267,736)</u>
Cash flows from financing activities		
Repayment of debt	-	(22,000,000)
Proceeds from debt	-	61,461,800
Dividends paid	5 (14,745,284)	(14,702,608)
Deposits with CRA	8 (68,262)	(1,323,637)
	<u>\$ (14,813,546)</u>	<u>\$ 23,435,555</u>
Net cash from / (used in) financing activities	<u>\$ (14,813,546)</u>	<u>\$ 23,435,555</u>
Net increase / (decrease) in cash and cash equivalents	<u>\$ (9,706,604)</u>	<u>\$ 36,263,862</u>
Impact of foreign exchange on cash balances	(247,830)	(1,684,932)
Cash and cash equivalents, Beginning of period	29,490,843	20,990,702
Cash and cash equivalents, End of period	<u>\$ 19,536,409</u>	<u>\$ 55,569,632</u>

1. Reporting entity:

Alaris Royalty Corp. is a company domiciled in Calgary, Alberta, Canada. The condensed consolidated interim financial statements as at and for the three months ended March 31, 2017 comprise Alaris Royalty Corp. and its subsidiaries (together referred to as the "Corporation"). The Corporation's Canadian operations are conducted through a partnership (Alaris Income Growth Fund Partnership) and Salaris Small Cap. Royalty Corp. ("Salaris"). The Corporation's American operations are conducted through two Delaware Corporations, Alaris USA ("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 May 8, 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.

2. Statement of compliance (continued):

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 9 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:**

There have been no changes to the Corporation's accounting policies from those disclosed in the consolidated financial statements of the Corporation for the years ended December 31, 2016 and 2015.

4. Investments

Investments at Fair Value

31-Mar-17	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LMS	\$ 60,033,897	\$ 655,901	\$ 60,689,798	\$ 36,148,297
KMH	54,800,000	589,147	55,389,147	26,446,832
Labstat	47,200,000	518,944	47,718,944	49,198,944
Agility Health	26,785,260	829,508	27,614,768	26,676,651
SCR	40,000,000	487,339	40,487,339	30,488,338
Sequel	97,946,100	977,425	98,923,525	108,543,564
Group SM	40,500,000	717,310	41,217,310	40,217,310
Kimco	45,571,260	1,329,379	46,900,639	30,833,143
Planet Fitness	53,304,000	835,955	54,139,955	58,430,927
DNT	93,282,000	750,167	94,032,167	98,136,575
FED	17,388,848	1,837,974	19,226,822	21,566,593
Sandbox	29,317,200	913,404	30,230,604	30,241,489
Providence	39,978,000	518,111	40,496,111	40,512,586
Matisia	23,753,596	655,017	24,408,613	24,408,616
ccComm.	5,330,401	201,575	5,531,976	5,531,976
Total LP and LLC Units	675,190,562	11,817,155	687,007,717	627,381,841
FED Loan Receivable	53,304,000	-	53,304,000	53,304,000
Total Investments at Fair Value	\$ 728,494,562	\$ 11,817,155	\$ 740,311,717	\$ 680,685,841
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

The difference in the acquisition cost of Agility, Sequel, Kimco, Planet Fitness, DNT, Federal Resources and Matisia at March 31, 2017 and December 31, 2016 is due to foreign currency translation.

4. Investments (continued):

Investment in ccCommunications LLC (“ccComm”)

The Corporation, through its subsidiary Salaris contributed US\$4 million (approximately CAD\$5.4 million) to ccComm on January 10, 2017 in exchange for an annualized distribution of US\$0.6 million (approximately CAD\$0.8 million). ccComm is a Sprint retailer with over 50 locations throughout the Northwest and Central U.S.

Royalties and Distributions:

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

Royalties and distributions:	Three months ended March 31	
	2017	2016
Sequel	\$ 4,050,657	\$ 4,056,575
DNT	3,683,195	3,608,484
FED	2,795,697	2,429,254
Planet Fitness	2,144,394	2,138,458
Labstat	1,500,000	1,375,000
Providence	1,489,163	-
LMS	1,205,569	1,087,193
Sandbox	1,090,997	269,746
Agility Health	1,012,237	1,057,538
Matisia	893,497	-
End of the Roll	354,581	344,220
ccComm	170,804	-
Solowave	-	1,719,864
Kimco	-	1,653,606
Group SM	-	1,594,134
SCR	-	1,504,000
MAHC	-	684,323
LifeMark Health	-	730,216
Total Distributions	\$ 20,390,791	\$ 24,252,611
Other Income		
Interest	489,843	313,370
Total Income	\$ 20,880,634	\$ 24,565,981

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.

4. Investments (continued):

Trade & Other Receivables Continuity	31-Mar-17	31-Dec-16
Group SM (1)	11,596,498	11,217,992
Agility (2)	2,223,563	2,382,291
Labstat (3)	2,177,336	2,467,655
Other Receivables	802,015	694,267
Balance at March 31, 2017	16,799,412	16,762,204

- (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) Agility represents US\$1.6 million (2016 – US\$1.7 million) in unpaid distributions which were accrued from March to September 2016, as they underwent a strategic process. Amounts are expected to be collected in 2017 and in March and April 2017, Agility paid US\$100 thousand and US\$125 respectively, thousand in addition to its regular distributions. Agility is currently under default of its partnership agreement but has agreed to make incremental monthly installments (in addition to their contracted distribution) of US\$150 thousand until the strategic process has been completed.
- (3) Labstat includes the cash flow sweep for 2016 distributions. The Corporation collected \$1 million during the current period with the remainder of \$1.1 million collected subsequent to March 31st.

Should there be an adverse event in Kimco's, Agility'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 March 31, 2017, the following is a summary of the outstanding promissory notes.

Promissory Notes and Other Receivables	31-Mar-17	31-Dec-16
Current		
Group SM (3)	\$22,000,000	\$17,000,000
Labstat (2)	3,734,945	3,734,945
SHS (4,6)	1,187,500	1,187,500
Total Current	\$26,922,445	\$21,922,445
Non-Current		
KMH (1,6)	\$3,500,000	\$3,500,000
Kimco (5)	4,344,367	4,391,312
Total Non-current	\$7,844,367	\$7,891,312
Total	\$34,766,812	\$29,813,757

- (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) During the period ended March 31, 2017 the Corporation provided \$5 million to Group SM as short term financing as they transitioned between senior credit facility lenders. The \$5 million is secured against outstanding accounts receivable and is accruing interest at 12% per annum. The \$5 million is expected to be repaid in May 2017, upon receipt of cash from the new senior lender, who has approved and signed a debt agreement with Group SM. In addition Group SM has a \$17 million unsecured demand note (interest at 8%) outstanding and the Corporation expects to be repaid in the next twelve months.

4. Investments (continued):

- (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 2017 and subsequent to March 31, 2017 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) Due to challenging operating results during 2016, previously accrued distributions totaling US\$4.5 million were reclassified to long-term receivables during the quarter ended December 31, 2016. Upon reclassification, the amounts due were discounted to reflect the long-term collection horizon. The carrying value at March 31, 2017 reflects that the Corporation expects to receive these amounts over a five year period.
- (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 of \$6,183,721 (December 31, 2016 - \$6,206,455), net of accumulated amortization of \$1,091,199 (December 31, 2016 - \$1,068,465).

5. Share capital:

Issued Common Shares	Number of Shares	Amount(\$)
Balance at January 1, 2016	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
Issued after employee / director vesting	72,369	1,802,417
Cashless options exercised in the period	35,711	-
Fair value of options exercised in the period	-	437,748
Balance at March 31, 2017	36,444,137	\$ 620,132,983

The Corporation has authorized, issued and outstanding, 36,444,137 voting common shares as at March 31, 2017.

Weighted Average Shares Outstanding	Three months ending March 31	
	2017	2016
Weighted average shares outstanding, basic	36,450,803	36,302,736
Effect of outstanding options	31,637	83,136
Effect of outstanding RSUs	301,664	272,107
Weighted average shares outstanding, fully diluted	36,784,103	36,657,979

2,079,671 options were excluded from the calculation as they were anti-dilutive at March 31, 2017.

Dividends

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

In each of the first three months of 2017, the Corporation declared a dividend of \$0.135 per common share (\$0.405 per share and \$14,745,284 in aggregate). In each of the first three months of 2016, the Corporation declared a dividend of \$0.135 per common share (\$0.405 per share and \$14,702,608 in aggregate).

6. Loans and borrowings:

As at March 31, 2017 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 March 31, 2017) 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

6. Loans and borrowings (continued):

worth of \$450 million; and a minimum fixed charge coverage ratio of 1:1. At March 31, 2017, the facility was \$98.6 million drawn.

At March 31, 2017, 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 1.26:1 at March 31, 2017); minimum tangible net worth of \$450.0 million (actual amount is \$644.0 million at March 31, 2017); and a minimum fixed charge coverage ratio of 1:1 (actual ratio is 1.20:1 at March 31, 2017).

7. 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 265,545 RSUs to management and Directors as of March 31, 2017. The RSUs issued to directors (88,377) vest over a three-year period. The RSUs issued to management (177,168) do not vest until the end of a three-year period (11,088 in July 2017, 119,000 in July 2018; and 47,080 in July 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 2,079,671 options as of March 31, 2017. The options outstanding at March 31, 2017, have an exercise price in the range of \$22.33 to \$33.87, a weighted average exercise price of \$26.47 and a weighted average contractual life of 2.70 years (2016 – 2.65 years).

For the three months ended March 31, 2017, the Corporation incurred stock-based compensation expenses of \$841,126 (2016 - \$1,100,517) which includes: \$274,436 (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2016 - \$685,474); and \$566,690 (non-cash expense) for the amortization of the fair value of outstanding stock options (2016 - \$415,043).

During the three month period ending March 31, 2017, 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. In addition, the Corporation granted 551,014 options at a weighted average price of \$22.46.

8. Income taxes:

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 \$40.2 million. Subsequent to filing the notice of objection for the July 14, 2009 taxation year, Alaris received an additional proposal from the CRA pursuant to which the CRA is proposing to apply the general anti avoidance rule to deny the use of non-capital losses, accumulated scientific research and experimental development expenditures and investment tax credits. 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

8. Income taxes (continued):

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 has paid \$16.3 million in deposits relating to these assessments, the total 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, 2015, on the same basis. Remaining investment tax credits of \$3.6 million at March 31, 2017 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.

9. Commitments, Contingencies and Guarantees:

In July 2016, 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	\$ 307,871
2018	421,033
2019	431,572
2020	215,786
	<u>\$ 1,376,262</u>