Unaudited Condensed Consolidated Interim

Financial Statements of

ALARIS ROYALTY CORP.

For the three months ended March 31, 2019 and 2018

Alaris Royalty Corp.
Condensed consolidated statements of financial position (unaudited)

$ thousands	Note	31-Mar 2019	31-Dec 2018
Assets			
Cash and cash equivalents		$ 17,818	$ 22,774
Prepayments		1,562	2,181
Trade and other receivables		1,602	923
Income taxes receivable		-	1,484
Investment tax credit receivable	8	2,798	2,798
Promissory notes receivable	4	22,090	23,252
Current Assets		$ 45,871	$ 53,413
Promissory notes and other receivables	4	26,388	26,959
Deposits	8	20,206	20,206
Property and equipment	3	960	344
Investments	4	787,081	790,175
Deferred income taxes	8	-	281
Non-current assets		$ 834,635	$ 837,965
Total Assets		**$ 880,506**	**$ 891,378**
Liabilities			
Accounts payable and accrued liabilities		$ 1,900	$ 3,670
Dividends payable		5,013	5,013
Foreign exchange contracts		489	1,333
Office Lease	3	664	-
Income tax payable	8	3,894	1,257
Current Liabilities		$ 11,958	$ 11,273
Deferred income taxes	8	13,882	16,137
Loans and borrowings	6	229,948	228,103
Non-current liabilities		$ 243,830	$ 244,240
Total Liabilities		**$ 255,788**	**$ 255,513**
Equity			
Share capital	5	$ 621,082	$ 621,082
Equity reserve	7	15,032	14,678
Translation reserve		25,014	32,725
Retained earnings / (deficit)		(36,410)	(32,621)
Total Equity		**$ 624,718**	**$ 635,865**
Total Liabilities and Equity		**$ 880,506**	**$ 891,378**
Commitments	10		

Alaris Royalty Corp.

Condensed consolidated statements of comprehensive income / (loss) (unaudited)

		Three months ended March 31	
$ thousands except per share amounts	Note	**2019**	**2018**
Revenues			
Distributions	4	$ 26,593	$ 23,252
Interest	4	1,065	388
Total Revenue		**$ 27,658**	**$ 23,641**
Other income / (loss)			
Gain on partner redemptions	4	$ -	$ 1,742
Increase / (decrease) in investments at fair value	4	(5,097)	3,531
Realized gain / (loss) on foreign exchange contracts		(170)	139
Total other income / (loss)		**$ (5,267)**	**$ 5,412**
Salaries and benefits		$ 777	$ 682
Corporate and office		605	953
Legal and accounting fees		1,074	1,113
Transaction diligence costs		179	-
Non-cash stock-based compensation	7	354	768
Bad debt expense & reserve	4	-	25,975
Depreciation, amortization and accretion		171	65
Total operating expenses		3,158	29,554
Earnings / (loss) before the undernoted		**$ 19,234**	**$ (501)**
Finance costs	6	4,136	2,745
Unrealized (gain) / loss on foreign exchange contracts		(844)	1,219
Unrealized foreign exchange (gain) / loss		3,842	(4,478)
Earnings before taxes		**$ 12,101**	**$ 13**
Current income tax expense	8	2,532	5,095
Deferred income tax recovery	8	(1,696)	(1,936)
Total income tax expense		836	3,159
Earnings / (loss)		**$ 11,265**	**$ (3,146)**
Other comprehensive income			
Foreign currency translation differences		(7,711)	7,267
Total comprehensive income		**$ 3,554**	**$ 4,121**
Earnings / (loss) per share			
Basic		$ 0.31	$ (0.09)
Fully diluted		$ 0.31	$ (0.09)
Weighted average shares outstanding			
Basic	5	36,496	36,481
Fully Diluted	5	36,772	36,773

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the three months ended March 31, 2018

$ thousands	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings / (Deficit)	Total Equity
Balance at January 1, 2018		$ 620,842	$ 12,058	$ (17,036)	$ 5,767	$ (17,087)	$ 604,544
Earnings for the period		$ -	$ -	$ -	$ -	$ (3,146)	$ (3,146)
Foreign currency translation differences		-	-	-	7,267	-	7,267
Total other comprehensive income / (loss)		-	-	-	7,267	-	7,267
Total comprehensive income / (loss) for the period		$ -	$ -	$ -	$ 7,267	$ (3,146)	$ 4,121
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	7	$ -	$ 768	$ -	$ -	$ -	$ 768
Dividends to shareholders	5	-	-	-	-	(14,775)	(14,775)
Fair value reserve transferred to opening retained earnigns		-	-	17,036	-	(17,036)	-
Total transactions with Shareholders of the Company		$ -	768	17,036	-	(31,811)	(14,007)
Balance at March 31, 2018		**$ 620,842**	**$ 12,826**	**$ -**	**$ 13,034**	**$ (52,044)**	**$ 594,658**

Alaris Royalty Corp.
Condensed consolidated statement of changes in equity (unaudited)
For the three months ended March 31, 2019

$ thousands	Notes	Share Capital	Equity Reserve	Translation Reserve	Retained Earnings / (Deficit)	Total Equity
Balance at January 1, 2019		$ 621,082	$ 14,678	$ 32,725	$ (32,621)	$ 635,865
Earnings / (loss) for the period		$ -	$ -	$ -	$ 11,265	$ 11,265
Other comprehensive loss						
Foreign currency translation differences		-	-	(7,711)	-	(7,711)
Total comprehensive income / (loss) for the period		$ -	$ -	$ (7,711)	$ 11,265	$ 3,554
Transactions with shareholders of the Company, recognized directly in equity						
Non-cash stock based compensation	7	$ -	$ 354	$ -	$ -	$ 354
Dividends to shareholders	5	-	-	-	(15,054)	(15,054)
Total transactions with Shareholders of the Company		$ -	354	-	(15,054)	$ (14,701)
Balance at March 31, 2019		**$ 621,082**	**$ 15,032**	**$ 25,014**	**$ (36,410)**	**$ 624,718**

Alaris Royalty Corp.

Condensed consolidated statements of cash flows (unaudited)

$ thousands	Notes	Three months ended March 31 2019	 2018
Cash flows from operating activities			
Earnings / (loss) for the period		$ 11,265	$ (3,146)
Adjustments for:			
Finance costs	6	4,136	2,745
Deferred income tax recovery		(1,696)	(1,936)
Depreciation, amortization and accretion		171	65
Bad debt expense & reserve	4	-	25,975
Gain on partner redemptions	4	-	(1,742)
Increase / (decrease) in investments at fair value	4	5,097	(3,531)
Unrealized (gain) / loss on foreign exchange contracts		(844)	1,219
Unrealized foreign exchange (gain) / loss		3,842	(4,478)
Transaction diligence costs		179	-
Non-cash stock-based compensation	7	354	768
		$ 22,502	$ 15,937
Change in:			
- trade and other receivables		(679)	2,467
- income tax receivable / payable		4,121	4,802
- prepayments		620	302
- accounts payable, accrued liabilities, office lease payments		(1,770)	548
Cash generated from operating activities		24,793	24,056
Cash interest paid	6	(4,136)	(2,745)
Net cash from operating activities		$ 20,657	$ 21,311
Cash flows from investing activities			
Acquisition of investments	4	$ (17,154)	$ (18,841)
Transaction diligence costs		(179)	-
Proceeds from partner redemptions		-	26,360
Promissory notes issued		-	(8,352)
Promissory notes repaid	4	870	2,320
Net cash from / (used in) investing activities		$ (16,462)	$ 1,487
Cash flows from financing activities			
Repayment of debt		$ -	$ (34,039)
Proceeds from debt		6,634	7,739
Dividends paid	5	(15,054)	(14,775)
Office lease payments		(133)	-
Net cash used in financing activities		$ (8,553)	$ (41,075)
Net decrease in cash and cash equivalents		$ (4,358)	$ (18,277)
Impact of foreign exchange on cash balances		(599)	341
Cash and cash equivalents, Beginning of period		22,774	35,475
Cash and cash equivalents, End of period		$ 17,818	$ 17,540
Cash taxes paid / (received)		$ (1,638)	$ 284

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, 2019 and 2018 comprised of Alaris Royalty Corp. and its subsidiaries (together referred to as the "Corporation"). The Corporation's American investments are made through two Delaware Corporations, Alaris USA Inc. ("Alaris USA") and Salaris USA Royalty Inc. ("Salaris USA"). The Corporation's operations consist primarily of investments in private operating entities, typically in the form of preferred limited partnership interests, preferred interest in limited liability corporations in the United States, and loans receivable. The Corporation also has a wholly-owned subsidiary in the Netherlands, Alaris Cooperatief U.A. ("Alaris Cooperatief").

2. Statement of compliance:

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 and do not include all the disclosures required for full annual financial statements and should be read in conjunction with the 2018 consolidated annual financial statements.

These condensed consolidated interim financial statements were approved by the Board of Directors on May 6, 2019.

(b) Basis of measurement

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

- Investments classified as fair value through profit or loss ("Investments at Fair Value") are measured at fair value with changes in fair value recorded in earnings (see note 4).
- Derivative financial instruments are measured at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

Key judgments

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

Key estimates used in discounted cash flow projections

Key assumptions used in the calculation of ("Investments at Fair Value") are discount rates, terminal value growth rates and annual performance metric growth rates. Where partners are in default, other valuation methods may be used.

Collectability of financial assets at amortized cost

Management makes estimates of expected credit losses (ECLs) on its financial assets measured at amortized cost. ECL's are a probability weighted estimate of credit losses. 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, and information on security values.

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:

Except as described below, the accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Corporation's consolidated financial statements as at and for the year ended December 31, 2018.

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

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

Definition of a lease

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

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

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

Significant Accounting Policies

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

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

The lease liability is subsequently measured at amortized cost.

Transition

Previously, the Corporation classified property leases as operating leases under IAS 17. This included the Corporation's office lease. At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Corporation's incremental borrowing rate as at January 1,

2019. The result is the recognition of a lease liability at January 1, 2019 of $0.7 million. A corresponding right of use asset has been recorded at an amount equal to the lease liability and is depreciated over the remaining term of the lease. The right of use asset is included in Property & equipment.

4. Investments

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

31-Mar-19 *$ thousands*	**Acquisition Cost**	**Carrying Value**
Lower Mainland Steel Limited Partnership ("LMS")*	$ 60,550	$ 41,285
SCR Mining and Tunneling, LP ("SCR")	40,487	28,903
Kimco Holdings, LLC ("Kimco")*	46,999	25,415
PF Growth Partners, LLC ("Planet Fitness")*	28,300	33,343
DNT, LLC ("DNT")*	91,110	92,066
Federal Resources Supply Company ("FED")*	90,711	98,184
Sandbox Acquisitions, LLC ("Sandbox")*	54,257	58,924
Providence Industries, LLC ("Providence")*	40,581	31,437
Unify, LLC ("Unify")*	16,447	18,047
ccCommunications LLC ("ccComm")*	21,713	21,295
Accscient, LLC ("Accscient")*	51,519	52,050
Sales Benchmark Index LLC ("SBI")*	114,116	122,140
Heritage Restoration, LLC ("Heritage")*	18,118	21,099
Fleet Advantage, LLC ("Fleet")*	19,381	20,030
Body Contour Centers, LLC ("BCC")*	58,159	61,434
GWM Holdings, Inc ("GWM")*	5,849	6,009
GWM Loan Receivable at amortized cost*	53,937	55,420
Total Investments	**$ 812,234**	**$ 787,081**

31-Dec-18	**Acquisition Cost**	**Carrying Value**
Lower Mainland Steel Limited Partnership ("LMS")*	$ 60,690	$ 39,769
SCR Mining and Tunneling, LP ("SCR")	40,487	28,903
Kimco Holdings, LLC ("Kimco")*	48,016	25,965
PF Growth Partners, LLC ("Planet Fitness")*	28,913	34,064
DNT, LLC ("DNT")*	93,082	94,059
Federal Resources Supply Company ("FED")*	92,674	100,309
Sandbox Acquisitions, LLC ("Sandbox")*	48,711	53,318
Providence Industries, LLC ("Providence")*	41,459	39,007
Unify, LLC ("Unify")*	16,803	18,441
ccCommunications LLC ("ccComm")*	22,183	21,755
Accscient, LLC ("Accscient")*	41,829	42,261
Sales Benchmark Index LLC ("SBI")*	116,585	124,783
Heritage Restoration, LLC ("Heritage")*	18,511	21,556
Fleet Advantage, LLC ("Fleet")*	19,802	20,464
Body Contour Centers, LLC ("BCC")*	59,418	62,763
GWM Holdings, Inc ("GWM")*	5,975	6,139
GWM Loan Receivable at amortized cost*	55,104	56,619
Total Investments	**$ 810,242**	**$ 790,175**

Transactions closed in 2019

Investment into existing partner Accscient

On January 12, 2019, the Corporation invested an additional US$8.0 million into Accscient in exchange for initial annual distributions of US$1.1 million. The contribution represents the Corporation's fifth investment (including the initial) into Accscient for a total of US$38.0 million.

Investment into existing partner Sandbox

On February 22, 2019, the Corporation contributed an additional US$5.0 million into Sandbox, in exchange for incremental distributions of US$0.8 million. The fourth additional contribution into Sandbox has a minimum repurchase premium of US$1.0 million and may include a percentage of common equity upon redemption.

Assumptions used in fair value calculations:

The Corporation recognizes that the determination of fair value of its investments at fair value becomes more judgmental the longer the investment is held. The price the Corporation pays for its investments is fair value at that time. Typically, the risk profile and future cash flows expected from the individual investments change over time. The Corporation's valuation model incorporates these factors each reporting period. The Corporation estimates the fair value of the investments at fair value by evaluating a number of different methods. At March 31, 2019 and December 31, 2018 the valuation method used was a going concern value.

The going concern value was determined by calculating the discounted cash flow of the future expected distributions. Key assumptions used include the discount rate used in the calculation and estimates relating to changes in future distributions. For each individual partner, the Corporation considered a number of different discount rate factors including what industry they operated in, the size of the company, the health of the balance sheet and the ability of the historical earnings to cover the future distributions. This was supported by the historical yield of the original investment, current investing yields, and the current yield of Alaris' publicly traded shares and of other similar public companies. Future distributions have been discounted at rates ranging from 13.3% - 19.5%. The Corporation considers the maximum repurchase price in all fair value adjustments of investments.

Royalties and Distributions:

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

Partner Distributions:	**Three months ended March 31**	
$ thousands	**2019**	**2018**
SBI	$ 3,967	$ 3,492
DNT	3,799	3,626
FED	3,698	3,394
BCC	2,141	-
Sandbox	1,914	1,813
GWM	1,855	-
Accscient	1,811	948
Providence	1,571	1,495
LMS	1,300	1,180
Planet Fitness	1,172	2,170
Heritage	797	526
ccComm	779	307
Fleet	698	-
Unify	641	871
SCR	450	300
Labstat	-	2,104
Agility Health	-	637
End of the Roll	-	390
Total Distributions	$ 26,593	$ 23,252
Other Income		
Interest	1,065	388
Total Revenue	**$ 27,658**	**$ 23,641**

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. Should there be an adverse event to any of the below businesses, the timing and amounts collected could be negatively impacted. The Corporation will continue to pursue recovery of the full face value for all outstanding promissory notes. The differences between carrying value and face value is due to the timing and uncertainty surrounding the collection of cash flows. Below is a summary of changes in promissory notes and other receivables for the three months ended March 31, 2019.

Reconciliation of Promissory Notes and Other Receivables *($ thousands)*	Three months ended March 31
Face Value - Opening	$ 93,731
Opening provision for credit losses	(43,520)
Carrying Value as at December 31, 2018	**$ 50,211**
Repayments	(870)
Foreign exchange	(863)
Carrying Value as at March 31,2019	**$ 48,478**
Promissory notes & other receivables - current	$ 22,090
Promissory notes & other receivables - non-current	$ 26,388

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

Promissory Notes and Other Receivables by Partner	Carrying Value	
($ thousands)	*31-Mar-19*	*31-Dec-18*
Lower Mainland Steel	$ 5,000	$ 5,000
Sandbox	17,752	18,136
Group SM - secured promissory note	3,630	4,500
Agility - accounts receivable	2,003	2,046
Kimco - long-term accounts receivable	2,437	2,494
Kimco	17,656	18,035
Balance	**$ 48,478**	**$ 50,211**

The expected credit loss model classifies the Corporation's outstanding promissory notes and other receivables in three stages based on their credit quality. Stage 1 represents the lowest credit risk and stage 3 representing loans that are credit impaired. As at March 31, 2019 the Corporation had $46.0 million (December 31, 2018 - $47.7 million) of promissory notes and other receivables classified as stage 1 and $2.4 million classified as stage 3 (December 31, 2018 - $2.5 million). There was no transfer between stages during the three months ended March 31, 2019. The cumulative total credit loss provision as at March 31, 2019 is $43.5 million (of the cumulative credit loss $1.0 million would be classified as stage 1 and $42.5 million would be classified as stage 3).

5. Share capital:

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

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

Weighted Average Shares Outstanding	Three months ended March 31	
thousands	**2019**	**2018**
Weighted average shares outstanding, basic	36,496	36,481
Effect of outstanding RSUs	276	292
Weighted average shares outstanding, fully diluted	36,772	36,773

2,242,364 options were excluded from the calculation as they were anti-dilutive at March 31, 2019 and March 31, 2018.

Dividends

The Corporation declared a monthly dividend of $0.1375 per common share in each of the three months of 2019, $0.4125 per share and $15.0 million in aggregate (2018 - $0.405 per share and $14.7 million in aggregate).

6. Loans and borrowings:

As at March 31, 2019 the Corporation had a $300 million credit facility with a syndicate of Canadian chartered banks, the facility has a four year term with a maturity date in September 2021. The interest rate is based on a combination of the CAD Prime Rate ("Prime"), Bankers' Acceptances ("BA"), US Base Rate ("USBR") and LIBOR. The Corporation realized a blended interest rate of 6.4% for the three months ended March 31, 2019. At March 31, 2019, the Corporation had USD$172.2 million (CAD$229.9 million) drawn on its credit facility (December 31, 2018 - USD$167.2 million, CAD$228.1 million).

At March 31, 2019 the Corporation met all of its covenants as required by the facility. Those covenants include a maximum funded debt to contracted EBITDA of 2.5:1, which can be increased to 3.0:1 for up to ninety days (actual ratio is 2.32:1 at March 31, 2019); minimum tangible net worth of $450.0 million (actual amount is $624.7 million at March 31, 2019); and a minimum fixed charge coverage ratio of 1:1 (actual ratio is 1.23:1 at March 31, 2019).

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 403,441 and issued 276,651 RSUs to management and Directors as of March 31, 2019. The RSUs issued to directors (78,605) vest over a three year period. The RSUs issued to management (198,046) do not vest until the end of a three year period (119,000 in July 2018 not vested yet due to restrictions under the RSU plan, 47,080 in July 2019, and 31,966 in October 2020) and are subject to certain performance conditions relating to operating cash flow per share. The Corporation has approved 157,300 RSUs for management and 15,000 RSUs for directors that have not yet been granted due to restrictions under the RSU plan. 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 3,102,181 and issued 2,242,364 options as of March 31, 2019. The options outstanding at March 31, 2019, have an exercise price in the range of $20.60 to $33.87, a weighted average exercise price of $25.56 (2018 – $25.56) and a weighted average contractual life of 1.90 years (2018 – 2.05 years).

For the three months ended March 31, 2019 the Corporation incurred stock-based compensation expenses of $0.4 million (2018 - $0.8 million) which includes: $0.2 million (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2018 - $0.5 million); and $0.2 million (non-cash expense) for the amortization of the fair value of outstanding stock options (2018 - $0.3 million).

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. The Corporation has since received notices of reassessment from the Canada Revenue Agency in respect of its taxation year ended December 30, 2009 through December 30, 2017 (collectively the "Reassessments"). Pursuant to the Reassessments, the deduction of approximately $121.2 million of non-capital losses and utilization of $7.9 million in investment tax credits ("ITC's") by the Corporation was denied, resulting in reassessed taxes and interest of approximately $48.0 million. Subsequent to filing the notice of objection for the July 14, 2009 taxation year, Alaris received an additional proposal from the CRA pursuant to which the CRA is proposing to apply the general anti avoidance rule to deny the use of non-capital losses, accumulated scientific research and experimental development expenditures and investment tax credits. The proposal does not impact the Corporation's previously disclosed assessment of the total potential tax liability (including interest) or the deposits required to be paid in order to dispute the CRA's reassessments. The Corporation has received legal advice that it should be entitled to deduct the non-capital losses and as such, the Corporation remains of the opinion that all tax filings to date were filed correctly and that it will be successful in appealing such Reassessments. The Corporation intends to continue to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amounts as a deposit to the Canada Revenue Agency. The Corporation has paid a total of $20.2 million in deposits to the CRA relating to the Reassessments to date. It is possible that the Corporation may be reassessed with respect to the deduction of its tax pools in its tax filings for the 2018 taxation year, thereby disallowing ITC's of $0.2 million, on the same basis. The carrying values of the remaining ITC's of $2.8 million at March 31, 2019 are at risk should the Corporation be unsuccessful in defending its position. The Corporation anticipates that legal proceedings through the CRA and the courts will take considerable time to resolve and the payment of the deposits, and any taxes, interest or penalties owing will not materially impact the Corporation's payout ratio.

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

In December of 2018 the U.S. Treasury issued proposed regulations which provided administrative guidance and clarified certain aspects of U.S. Tax Reform. The proposed regulations are complex and comprehensive, and considerable uncertainty continues to exist until the final regulations are released, which is expected to occur later in 2019. As these proposed regulations have not been enacted as at March 31, 2019, their impact has not been reflected in income tax expense. However, if the proposed regulations are enacted as currently drafted, certain provisions could be effective commencing January 1, 2019 and the resulting increase to income tax expense of the Company for the period ended, March 31, 2019 would be an increase of approximately $2.8 million.

9. Fair Value of Financial Instruments:

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

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

The following items shown on the condensed consolidated interim statement of financial position as at March 31, 2019 and December 31, 2018, are measured at fair value on a recurring basis using level 2 or level 3 inputs. Discount rates and estimates used to determine changes in future distributions from each investment are the primary inputs in the fair value models and are generally unobservable. Accordingly, these fair value measures are classified as level 3. There were no transfers between level 2 or level 3 classified assets and liabilities during the three months ended March 31, 2019.

9. Fair Value of Financial Instruments (continued):

Fair value classification *($ thousands)*	Level 1	Level 2	Level 3	Total
31-Mar-19				
Foreign exchange contracts	$ -	$ (489)	$ -	$ (489)
Investments	-	-	787,081	787,081
Total at March 31, 2019	**$ -**	$ (489)	**$ 787,081**	**$ 786,592**
31-Dec-18	**Level 1**	**Level 2**	**Level 3**	**Total**
Foreign exchange contracts	$ -	$ (1,333)	$ -	$ (1,333)
Investments	-	-	790,175	790,175
Total at December 31, 2018	**$ -**	**($ 1,333)**	**$ 790,175**	**$ 788,842**

The Corporation purchases forward exchange rate contracts to match expected after tax distributions in US dollars on a rolling 12 month basis and also for between 25% to 50% of the expected distributions on a rolling 12 to 24 month basis. The notional value of outstanding foreign exchange contracts is US$18.9 million as at March 31, 2019 (US$24.7 million as of December 31, 2018).

The most significant inputs in the calculation of fair value of Level 3 Investments at Fair value is the discount rate applied to expected future cash flows and future distributions. If the discount rate increased (decreased) by 1%, the fair value of Level 3 investments at March 31, 2019 would increase by $58.9 million and decrease by $42.3 million. If future distributions increased (decreased) by 1% the fair value of Level 3 investments would increase by $13.4 million and decrease by $13.2 million.

10. Commitments:

The Corporation commitments consist of a US$45.0 million commitment to Body Contour Centers ("BCC") to fund additional contributions when specified financial metrics are achieved.

Commitments *($ thousands)*	31-Mar-19
2019	$ -
2020	60,093
Total Commitments	**$ 60,093**