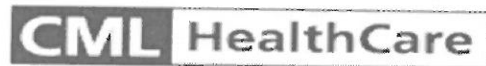

Care. Confidence. Comfort.

CML HEALTHCARE INCOME FUND
CONSOLIDATED FINANCIAL STATEMENTS

For the year-ended December 31, 2010

CML HealthCare Income Fund
Consolidated Balance Sheets

(in thousands of Canadian dollars)

	December 31, 2010 $	December 31, 2009 $
ASSETS		
Current assets		
Cash and cash equivalents	**9,665**	21,787
Accounts receivable	**54,421**	56,616
Income taxes recoverable	**-**	523
Other current assets	**3,451**	4,483
Future income taxes (Note 11)	**7,269**	3,397
Restricted cash (Note 21)	**995**	-
	75,801	86,806
Property and equipment (Note 3)	**86,711**	87,581
Licences	**505,514**	505,825
Intangible assets (Notes 4, 16 and 21)	**23,004**	42,821
Goodwill (Note 16 and 21)	**238,012**	273,495
Investments and other assets (Note 5)	**3,764**	744
Total Assets	**932,806**	997,272
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**44,779**	48,407
Distributions payable (Note 9)	**-**	8,007
Income taxes payable	**1,720**	798
Current portion of long-term debt (Note 6)	**3,194**	4,426
	49,693	61,638
Long-term debt (Note 6)	**331,954**	316,076
Other long-term liabilities (Note 19)	**12,718**	13,726
Future income taxes (Note 11)	**53,923**	55,643
Total Liabilities	**448,288**	447,083
UNITHOLDERS' EQUITY		
Trust units (Note 7)	**561,874**	560,624
Accumulated other comprehensive loss (Note 17)	**(6,951)**	(4,696)
Deficit	**(70,405)**	(5,739)
	484,518	550,189
Total Liabilities and Unitholders' equity	**932,806**	997,272

Commitments (Note 10)

The accompanying notes are an integral part of these consolidated financial statements.

CML HealthCare Income Fund
Consolidated Statements of Earnings and Comprehensive Income

(in thousands of Canadian dollars, except units and per unit amounts)

For the years ended December 31	2010 $	2009 $
Revenue (Notes 14 and 15)	**480,382**	518,478
Expenses		
Operating, general and administrative (Note 12)	**355,322**	378,360
Amortization of property and equipment	**26,458**	27,723
Amortization of definite-lived intangible assets	**6,733**	5,949
Goodwill impairment (Note 16)	**32,081**	50,000
Impairment of long-lived assets (Note 16)	**19,121**	-
Loss on disposal of property and equipment	-	290
Foreign exchange gain	**(353)**	(225)
Other expenses, net (Note 18)	**3,083**	948
	442,445	463,045
Income before the undernoted	**37,937**	55,433
Interest expense		
Long-term debt (Note 6)	**12,525**	13,562
Earnings before income taxes	**25,412**	41,871
Provision for (recovery of) income taxes (Note 11)		
Current taxes	**184**	437
Future taxes	**(6,177)**	(14,045)
	(5,993)	(13,608)
Net earnings for the year	**31,405**	55,479
Other comprehensive income (loss), net of income taxes		
Unrealized gain on interest rate swap	**1,882**	9,028
Provision for income taxes	**(479)**	(2,542)
Net	**1,403**	6,486
Foreign currency translation adjustment	**(3,155)**	(14,596)
Provision for income taxes	**(503)**	(1,687)
Net	**(3,658)**	(16,283)
Comprehensive income for the year	**29,150**	45,682
Basic earnings per unit (Note 8)	**0.35**	0.62
Weighted average number of Units outstanding - basic	**89,842,404**	89,842,404

The accompanying notes are an integral part of these consolidated financial statements.

CML HealthCare Income Fund
Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

For the years ended December 31	2010 $	2009 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	**31,405**	55,479
Items not affecting cash		
Amortization of property and equipment	**26,458**	27,723
Amortization of definite-lived intangible assets	**6,733**	5,949
Loss on disposal of property and equipment	**-**	290
Long-term incentive plan expense (Note 7)	**1,214**	1,761
Phantom unit plan (recovery) / expense (Note 7)	**(248)**	304
Unrealized foreign exchange gain	**(737)**	(646)
Goodwill impairment (Note 16)	**32,081**	50,000
Impairment of long-lived assets (Note 16)	**19,121**	-
Other non-cash items	**2,214**	956
Future income taxes	**(6,177)**	(14,045)
Cash received from leasehold inducements	**-**	186
Supplier incentive received	**1,755**	-
	113,819	127,957
Net change in non-cash working capital items (Note 13)	**(5,413)**	3,770
	108,406	131,727
Investing activities		
Purchase of property and equipment	**(21,552)**	(25,677)
Proceeds on disposal of property and equipment	**-**	349
Acquisition of intangible assets (Note 23)	**(6,142)**	(5,176)
Proceeds from disposal of investments	**379**	-
Deposit and acquisition costs for potential future acquisitions	**(1,138)**	(553)
Business acquisitions (Note 21)	**(1,430)**	(9,950)
	(29,883)	(41,007)
Financing activities		
Principal repayment of long-term debt and obligations under capital lease	**(5,775)**	(2,992)
Proceeds from long-term debt	**20,000**	10,654
Distributions paid	**(104,078)**	(95,975)
Trust units acquired (Note 7)	**(518)**	(1,993)
	(90,371)	(90,306)
Effects of exchange on cash and cash equivalents	**(274)**	(79)
Decrease in cash and cash equivalents	**(12,122)**	335
Cash and cash equivalents, beginning of year	**21,787**	21,452
Cash and cash equivalents, end of the year	**9,665**	21,787

Supplementary information		
Interest paid	**12,727**	13,043
Income taxes recovered	**(1,161)**	(4,063)

The accompanying notes are an integral part of these consolidated financial statements.

CML HealthCare Income Fund
Consolidated Statements of Unitholders' Equity

(in thousands)	Trust Units		Treasury Units		Net Units		Deficit	Accumulated Other Comprehensive loss (Note 17)	Total Unitholders' Equity
	Number	$	Number	$	Number	$	$	$	$
January 1, 2010	**89,842**	**562,660**	**148**	**2,036**	**89,694**	**560,624**	**(5,739)**	**(4,696)**	**550,189**
Trust units acquired (Note 7)			41	518	(41)	(518)			(518)
Trust units distributed to employee (Note 7)			(128)	(1,768)	128	1,768			1,768
Distributions declared to unitholders (Note 9)							(96,071)		(96,071)
Other comprehensive loss								(2,255)	(2,255)
Net earnings for the year							31,405		31,405
December 31, 2010	**89,842**	**562,660**	**61**	**786**	**89,781**	**561,874**	**(70,405)**	**(6,951)**	**484,518**

	Trust Units		Treasury Units		Net Units		Retained Earnings	Accumulated Other Comprehensive Income (loss) (Note 17)	Total Unitholders' Equity
	Number	$	Number	$	Number	$	$	$	$
January 1, 2009	**89,842**	**562,660**	**132**	**2,047**	**89,710**	**560,613**	**34,756**	**5,101**	**600,470**
Trust units acquired (Note 7)			156	1,993	(156)	(1,993)			(1,993)
Trust units distributed to employees (Note 7)			(140)	(2,004)	140	2,004			2,004
Distributions declared to unitholders (Note 9)							(95,974)		(95,974)
Other comprehensive income								(9,797)	(9,797)
Net earnings for the year							55,479		55,479
December 31, 2009	**89,842**	**562,660**	**148**	**2,036**	**89,694**	**560,624**	**(5,739)**	**(4,696)**	**550,189**

The accompanying notes are an integral part of these consolidated financial statements.

CML HealthCare Income Fund
Notes to Consolidated Financial Statements
December 31, 2010 and 2009
(amounts in thousands of Canadian dollars, except units and per unit amounts)

1 Organization and nature of operations

The CML HealthCare Income Fund (the "Fund") is a trust established under the laws of the Province of Ontario pursuant to a declaration of trust dated January 16, 2004. The Fund was created to invest in common shares and $794,807 of 12% unsecured subordinated notes, $12,000 of 10% unsecured subordinated notes and $96,651 non-interest bearing unsecured demand notes of CML HealthCare Inc. ("CML" or õthe Companyö). Through its wholly-owned subsidiaries, the Fund provides medical laboratory testing services in Ontario, Canada and medical imaging services in Canada and the United States of America (õU.S.ö).

On January 1, 2011, the Fund reorganized its income trust structure into a corporate structure pursuant to a plan of arrangement under the Business Corporations Act (Ontario) (the õArrangementö). Under the Arrangement, unitholders of the Fund ultimately received one common share of CML HealthCare Inc., the resulting entity from the amalgamation of CML Healthcare Inc. and 2260408 Ontario Limited completed under the Arrangement, for each trust unit exchanged.

As a result of the completion of the Arrangement and related transactions, CML became the successor reporting issuer to the Fund (in each jurisdiction in which the Fund had been a reporting issuer), and now directly and indirectly carries on the businesses previously conducted by the Fund and its subsidiaries. The conversion of the Fund to a corporation will be accounted for in accordance with the continuity of interest method of accounting.

2 Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (õCanadian GAAPö).

Significant accounting policies used in the preparation of these consolidated financial statements are as follows:

Basis of consolidation
These consolidated financial statements include the accounts of the Fund and its subsidiaries and variable interest entities where the Fund is exposed to the majority of expected losses or returns. Subsidiaries that are acquired during the year are consolidated from their respective dates of acquisition. The purchase method is used to account for business combinations. Intercompany transactions and balances are eliminated on consolidation.

Variable interest entities
On July 18, 2005, the Fund created a Trust, administered by a third party, to act as trustee for the Fund's Long-Term Incentive Plan ("LTIP"). The Fund has determined that the Trust is a variable

interest entity and therefore has consolidated the Trust in accordance with The Canadian Institute of Chartered Accountants' ("CICA") Accounting Guideline 15 "Consolidation of Variable Interest Entities" (õAg-15ö). The Fund has not guaranteed the value of the units held by the Trust should the market value of the Fund's units decrease from the value at which the Trust acquired the units. The Fund units held by the Trust have been classified as treasury units in these consolidated financial statements. Distributions on the Fund units are paid to participants and recorded as compensation expense when declared.

American Radiology Services (õARSö), a subsidiary of the Fund, had an exclusive 40-year agreement to provide management services to an affiliated physician association, American Radiology Associates, P.A. (õARAö), pursuant to which ARA provides radiologists who perform medical imaging services for ARS. Effective April 1, 2010, ARS and ARA entered into an amended and restated management service agreement (õMSAö). Under the new MSA, ARS has no financial controlling interest in ARA; nor is ARS the primary beneficiary of ARA. Accordingly, the Fund reevaluated the new MSA under AG-15 which has resulted in the deconsolidation of the financial position and operating results of ARA effective April 1, 2010.

Translation of foreign currencies

Revenue and expenses of the Fund denominated in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the transaction date. Monetary assets and liabilities are translated using the rate in effect at the balance sheet dates. Related exchange gains and losses are included in the determination of earnings.

The Fundøs subsidiaries in the U.S. are self-sustaining. Consequently, the assets and liabilities of these subsidiaries are translated into Canadian dollars using the year-end exchange rates, and revenues and expenses are translated at the average rates during the year. Exchange gains or losses on translation of the Fundøs net investment in these operations are recorded as foreign currency translation adjustments within accumulated other comprehensive income (loss). The Fundøs U.S. dollar, long-term senior unsecured debt has been designated as a hedge of the net investment in the U.S. operations. The foreign exchange gain/loss on the U.S. dollar debt related to the effective portion of the hedge is recorded in other comprehensive income and the ineffective portion is recorded in the consolidated statement of earnings.

Use of estimates

The preparation of these consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements include estimates and assumptions which, in the opinion of management, were significant to the underlying amounts representing the accounting for long-lived assets and goodwill. Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Goodwill is tested for impairment annually on December 31, or whenever events or changes in circumstances indicate that the goodwill may be impaired. Determining whether impairment has occurred requires various estimates and assumptions including estimates of cash flows that are directly related to the potentially impaired asset or a group of assets, the useful life over which cash flows will occur and their amounts. The measurement of an impairment loss

requires an estimate of fair value. Management uses valuation models to estimate the fair values of its long-lived assets. Estimates of fair values for intangible assets is based on relief from royalty or discounted cash flow models. For property and equipment, fair value is estimated using a depreciated replacement cost methodology. Actual results could differ from estimates used to determine impairment losses.

Cash and cash equivalents
Cash and cash equivalents are defined as cash and short-term deposits with original maturities of three months or less.

Property and equipment
Property and equipment are recorded at cost, less accumulated amortization. Amortization is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Laboratory and diagnostic equipment	5 to 15 years
Computer equipment	3 to 5 years
Furniture and fixtures	7 to 10 years
Leasehold improvements	Over the term of the lease and expected renewal period

Maintenance and repair costs are expensed as incurred.

Government assistance
Government assistance received for the purchase of diagnostic equipment is accounted for as a reduction in the cost of the related diagnostic equipment.

Goodwill and licences
Goodwill represents the excess of the cost of the investment in acquired businesses over the fair value of the underlying tangible and identifiable intangible net assets acquired at the date of acquisition. The Fund's licences are intangible assets with indefinite lives. The licences enable the Fund to perform health care diagnostic services in Canada. In accordance with the requirements of CICA Handbook Section 3064, õGoodwill and Intangible Assetsö, goodwill or indefinite-lived intangible assets are not amortized but rather are subject to an annual impairment test, or earlier, when circumstances indicate that impairment may exist. The Fund performs the annual impairment test on December 31. The need for any write-down of the goodwill and licences due to impairment in their value is based on the assessment of the fair value of the individual reporting units and the related goodwill and licences. A discounted cash flow model is used to estimate the fair value of the individual reporting units and the licences. Any write down of goodwill and licences arising from impairment in value is recorded in the period in which the impairment is identified.

Intangible assets
Intangible assets with definite lives includes outpatient centre, trade names and others, and doctorsø lists which are amortized on a straight-line basis over their respective estimated useful lives of five to ten years. Also, included in intangible assets are software costs that are not integral to the related hardware and are amortized on a straight-line basis over three years.

Impairment of long-lived assets
The Fund periodically reviews the useful lives and the carrying values of its long-lived assets. The Fund reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows expected to result from the use and eventual disposition of an asset or a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Long-term note receivable
The long-term note receivable is recorded at amortized cost and is written down to its estimated realizable amount when there is evidence of an impairment. The long-term note receivable is reviewed for impairment and is reduced to the estimated recoverable amount measured by expected future cash flows. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the long-term note receivable is measured at fair value of the underlying security, net of expected costs of realization. The accrual of interest is suspended if collection becomes doubtful.

Revenue
Revenue is recognized as laboratory and imaging services are provided to customers.

The vast majority of the Fund's laboratory services revenue is earned from the Ontario Ministry of Health and Long-Term Care ("MOH"). This revenue is recognized as services are performed.

The MOH has certain limits on healthcare expenditures and sets graduated limits on the amounts reimbursed for clinical laboratory services (õcorporate capö). Laboratory revenue that is subject to the MOH cap funding agreement is recognized at the lower of corporate cap (pro-rated on a monthly basis) and amounts based on services performed. To the extent fees subject to a corporate cap are paid to private laboratories and exceed the set limits, amounts received will have to be reimbursed. Certain revenues under the corporate cap are not known until the MOH completes its annual industry reconciliation, and these repayment amounts or additional revenues, if any, are not determined until after the completion of the fiscal year end of the Province of Ontario, which is March 31.

The Fund uses the latest available information in estimating the amount of fees received that may have to be reimbursed. Assumptions are made with respect to the amount of reimbursement required and the volume and type of laboratory tests referred to the Fund. It is possible that changes in future conditions in the near term could require a change in the amount to be reimbursed.

In the U.S., net fee-for-service revenue is recorded as services are provided at established rates, reduced by allowances for contractual adjustments. Contractual adjustments result from the terms of certain reimbursement contracts and represent the difference between charges at established rates and estimates of recoverable amounts. Such adjustments are recognized in the period the services are rendered and are managementøs best estimate of the recoverable amount. Actual results could differ from these estimates. Agreements are in place with various Health

Maintenance Organizations (õHMOsö) to provide radiology services to subscribing participants. Under these agreements, the Fund receives monthly capitation payments based on the number of participants of each HMO, regardless of services actually performed. In addition, the HMOøs make fee-for-service payments to the Fund for certain covered services based upon discounted fee schedules.

Uncompensated care

In the U.S., ARS provides diagnostic services to various Maryland hospitals. The hospitals provide services to uninsured patients and patients for whom payment is not expected under their various charity care policies. Under its contracts with those hospitals, ARS is required to provide services to all hospital-referred patients, including those patients who are uninsured or designated as charity care by the hospitals. ARS, however, is not able to identify such patients prior to providing the services. Accordingly, the estimated uncollectible accounts are recorded as a reduction in revenue. The related expenses attributable to these services are included in operating expenses.

Investment in joint ventures

ARS maintains a 50% interest in Calvert Medical Imaging Center (õCMICö) and Upper Chesapeake Health Systems (õUCHSö), which owns and operates three diagnostic imaging centres in the U.S. These consolidated financial statements include the Fundøs proportionate share of the assets, liabilities, revenues and expenses of CMIC and UCHS.

Income taxes

Until December 31, 2010, the Fundøs legal entity was a unit trust for income tax purposes and as such the Fund is only taxable on taxable income not distributed to unitholders. As substantially all taxable income of the Fund was distributed to unitholders, no provision for income taxes had been made in respect of earnings of the Fund.

On December 21, 2006, the Minister of Finance of Canada released draft legislation relating to the federal income taxation of publicly traded income trusts commencing with the taxation years ending on or after 2011. On June 22, 2007, the Senate passed the Federal Governmentøs budget implementation bill, which included the taxation of income trusts starting in 2011. As the Fundøs business activities are carried out through subsidiary companies, at the time of enactment of the legislation, taxing publicly traded income funds had no impact on the Fundøs consolidated financial statements.

The Fund's subsidiaries follow the asset and liability method of accounting for income taxes whereby the difference between the tax basis of assets and liabilities and their carrying values on the consolidated balance sheet is used to calculate future income tax assets and liabilities. Future income tax assets are recognized only to the extent that management determines that it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment. The income tax expense or benefit is the income tax payable or recoverable for the year, plus or minus the change in future income tax assets and liabilities during the year.

Stock-based compensation
The Fund has an LTIP and a phantom unit plan described in note 7.

The Fund created a Trust, administered by a third party, to act as Trustee for the Fund's LTIP. The Trust purchases units of the Fund in the open market on behalf of eligible employees. Compensation expense is measured based on the Fund exceeding certain defined distributable cash per unit threshold amounts and is expensed using the graded method over the vesting period.

The Fund has also established a phantom unit plan that provides for the granting of stock appreciation rights (õSARsö) to directors and certain employees (the õparticipantsö). Compensation expense is measured based on the market price of the Fundøs units at the end of each reporting period and recognized as an expense over the vesting period.

Interest rate swap
The Fund uses an interest rate swap contract to manage part of its exposure to movements in interest rates on its non-revolving variable interest term loan. The interest rate swap agreement involves the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment to interest expense on the loan. The related amount payable to or receivable from counterparties are included as an adjustment to accrued interest and are settled on a net basis. Interest to be paid or received under such swap contract is recognized over the life of the contract as an adjustment to interest expense. The Fund tested the effectiveness of the interest rate swap at inception and at the end of the year and has designated the swap as a cash flow hedge. The effective portion of the change in the fair value of the hedging item is recorded in accumulated other comprehensive income (loss).

Fair value hierarchy

The Fund categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other industry standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instrumentsø fair value.

3 Property and equipment

			December 31, 2010
	Cost	**Accumulated Amortization**	**Net**
	$	**$**	**$**
Laboratory and diagnostic equipment	**99,395**	**54,819**	**44,576**
Computer equipment	**31,541**	**16,447**	**15,094**
Furniture and fixtures	**9,393**	**4,119**	**5,274**
Leasehold improvements	**42,096**	**20,329**	**21,767**
	182,425	**95,714**	**86,711**

			December 31, 2009
	Cost	Accumulated Amortization	Net
	$	$	$
Laboratory and diagnostic equipment	94,226	44,285	49,941
Computer equipment	26,615	15,187	11,428
Furniture and fixtures	7,762	3,280	4,482
Leasehold improvements	37,159	15,429	21,730
	165,762	78,181	87,581

Included in laboratory and diagnostic equipment is equipment under capital lease with a cost of $16,293 (December 31, 2009 - $19,565) and a net book value of $13,403 (December 31, 2009 - $14,460).

On July 31, 2009, the Fund completed the asset acquisition of The Quarry Lake Imaging Centre in Baltimore, Maryland for cash consideration of $177. The Fund acquired diagnostic equipment of $1,438 and assumed the related capital lease of $1,261.

During the year-ended December 31, 2010, an impairment charge of $260 was recorded in respect of the U.S. operations (See Note 16).

4 Intangible assets

			December 31, 2010
	Cost	**Accumulated Amortization**	**Net**
	$	**$**	**$**
Outpatient centre	**5,960**	**555**	**5,405**
Doctorsø list	**10,011**	**3,085**	**6,926**
Computer software	**11,352**	**2,423**	**8,929**
Trade name and others	**6,093**	**4,349**	**1,744**
	33,416	**10,412**	**23,004**

			December 31, 2009
	Cost	Accumulated Amortization	Net
	$	$	$
Outpatient centre	26,454	3,853	22,601
Doctorsø list	10,011	2,148	7,863
Computer software	7,039	1,498	5,541
Trade name and others	9,801	2,985	6,816
	53,305	10,484	42,821

The adoption of the CICA Handbook section 3064, which establishes standards for recognition, measurement and disclosure of goodwill and intangible assets, resulted in the reclassification of $1,164 of software costs from property and equipment to intangible assets for the year ended December 31, 2009.

For the year ended December 31, 2010, an impairment charge of $18,861 was recorded in respect of certain intangibles assets of the U.S. operations (see Note 16).

5 Investments and other assets

	December 31, 2010	December 31, 2009
	$	$
Long-term note receivable (Note 23)	**3,442**	-
Deposits and acquisition costs on business acquisitions (Note 21)	**-**	56
Other assets	**322**	688
	3,764	744

The long-term note receivable, secured by accounts receivable of ARA, bears interest at greater of prime plus 1.25% or 5.75%, and is due upon the expiration of the new MSA.

6 Long-term debt

	December 31, 2010	December 31, 2009
	$	$
Five-year non-revolving term loan	**273,247**	277,144
Revolving credit facility	**50,570**	30,570
Obligations under capital lease bearing interest rates between 5.5% to 8.1% and due between 2011 and 2015	**11,331**	12,788
	335,148	320,502
Less current portion of long-term debt	**3,194**	4,426
	331,954	316,076

Under the terms of a credit arrangement entered into between the Company and a syndicate of lenders on February 22, 2008, the following credit facilities have been established:

- a five-year revolving credit facility of $100,000 was established for general corporate purposes; and,
- a five-year non-revolving term loan of $207,800 and US$66,622.

These loans bear interest at the Canadian prime rate, US base rate, bankerøs acceptance or LIBOR plus the applicable margins. The applicable margin on the loans ranges between 0.55% to 1.0% depending on the leverage ratio. The five-year non-revolving term loan and revolving credit facility are due February 22, 2013.

On March 5, 2008, the Fund entered into an interest rate swap to hedge the Fundøs exposure to variable interest rates, for a notional principal amount of $200,000 at a fixed rate of 4.078% plus applicable margin. The interest rate swap expires on February 22, 2013.

As at December 31, 2010, the Fund has $49,430 (December 31, 2009- $69,430) available under the revolving credit facility.

The effective rate of interest for the long-term debt outstanding during 2010 was 3.62% (December 31, 2009 ó 4.09%). As at December 31, 2010, the effective interest rate on the long term debt was 3.67% (December 31, 2009 ó 3.74%).

Interest expense consists of the following:

	December 31, 2010	December 31, 2009
	$	$
Interest expense on long-term debt	**11,684**	12,714
Interest expense on obligations under capital lease	**841**	848
	12,525	13,562

The minimum principal repayments for obligations under capital leases required in the next five years and thereafter based on their scheduled repayment dates are as follows:

	$
2011	3,708
2012	3,265
2013	2,844
2014	2,156
2015	666
Total minimum lease payments	12,639
Less: imputed interest	1,308
Obligations under capital leases	11,331
Less: current portion of obligations under capital leases	3,194
	8,137

7 Unitholders’ equity

The authorized capital of the Fund consists of an unlimited number of units. As at December 31, 2010, 89,842,404 (December 31, 2009 - 89,842,404) units of the Fund are issued and outstanding, of which 61,482 (December 31, 2009 - 148,756) units were held by the Fund in trust in connection with the Long-Term Incentive Plan (õLTIPö) and are accounted for in a manner similar to treasury units.

Long-Term Incentive Plan

Effective February 23, 2004, the Fund created an LTIP for certain employees of the Fund. On July 18, 2005, the Fund created a Trust, administered by a third party, to act as Trustee for the Fund's LTIP. Pursuant to the LTIP, on an annual basis, the Fund pays to the Trust amounts for exceeding certain defined distributable cash per unit threshold amounts, as defined in the agreement, over the base distribution which, in 2010, is $1.1193 (2009 - $1.1641) per unit. The Trust purchases units of the Fund in the open market on behalf of eligible employees. The units will be transferred to the employees each year over a three-year vesting period commencing December 1, for each year awards are made.

For the year ended December 31, 2010, the Fund paid $518 (year ended December 31, 2009 - $1,993) to the Trust and the Trustee acquired 41,000 units (December 31, 2009 - 156,000 units) of the Fund on the open market. The Fund units held by the Trust will be distributed to the employees in accordance with the terms of the LTIP. During the year ended December 31, 2010, 128,000 units (year ended December 31, 2009 ó 140,000) of the Fund that had vested, were distributed to eligible employees.

As at December 31, 2010, the Fund has recorded a liability of $1,012 (December 31, 2009 - $1,566) relating to the LTIP. For the year ended December 31, 2010, compensation expense of this LTIP was $1,214 (year ended December 31, 2009 - $1,761).

Phantom Unit Plan

The Fund has established a phantom unit plan that provides for the granting of stock appreciation rights (õSARsö) to directors and certain employees (the õparticipantsö). The SARs provide the participant with the opportunity to earn a cash benefit equal to the fair market value of the Fundøs units less the price at which the SARs were issued. Compensation expense is measured based on the market price of the Fundøs units at the end of each reporting period and recognized as an expense over the vesting period or earlier, in accordance with the terms of the plan. The SARs outstanding under the plan have been granted at the average closing price of the Fundøs units five days prior to the date of grant and vest at the end of the three-year period or earlier under circumstances defined in the plan.

A summary of the changes in the number of SARs for the year ended December 31, 2010, is as follows:

For the year ended December 31 (in thousands)	**2010**	2009
Outstanding, January 1	**1,518**	1,385
SARs granted during the year	**223**	473
SARs vested during the year	**(141)**	(340)
SARøs cancelled and expired during the year	**(255)**	-
Outstanding, December 31	**1,345**	1,518

During the year ended December 31, 2010, the Fund granted 223,000 (year ended December 31, 2010 - 473,000) SARs. The participants will be entitled to a cash payment equal to the difference between the quoted market value of the Fund units when they vest and the average market value of a Fund unit for the five days prior to the date of grant.

As at December 31, 2010, the total number of SARs outstanding was 1,345,000 (December 31, 2010 - 1,518,000). As at December 31, 2010, the Fund has recorded a liability of $56 (December 31, 2009 - $304) relating to the SARs and recognized a recovery of the compensation expense for the year ended December 31, 2010 totaling $248 (year ended December 31, 2010 - compensation expense - $304).

8 Earnings per unit

Earnings per unit is calculated using the weighted average number of units outstanding, including the treasury units. The weighted average number of units outstanding for the year ended December 31, 2010 was 89,842,404 (year ended December 31, 2010- 89,842,404).

	Basic earnings per Fund unit	
	December 31, 2010	December 31, 2009
Net earnings for the year	**$31,405**	$55,479
Basic earnings per Fund unit	**$0.35**	$0.62
Weighted average number of Fund units outstanding	**89,842,404**	89,842,404

9 Distributions declared

The distribution policy of the Fund is to make distributions of its available cash to the fullest extent possible, subject to the discretion of the Trustees, taking into account trends in revenue, earnings and cash flows.

The distribution declared on December 15, 2010 will be the last distribution paid to unitholders by the Fund. Commencing January 2011, at the discretion of the Directors, dividends may be declared on a monthly basis to the shareholders of CML HealthCare Inc. Subsequent to December 31, 2010, dividends of $0.0629 per common share were declared by the Board of Directors of the Company for the months of January and February 2011.

During the year ended December 31, 2010, the Fund declared total distributions to unitholders of $96,071. The amounts and record dates of distributions to unitholders during 2010 were as follows:

		Trust Units
Record date	**$**	**Amount per Unit**
January 29, 2010	**8,007**	**0.08927**
February 26, 2010	**8,007**	**0.08927**
March 31, 2010	**8,003**	**0.08927**
April 30, 2010	**8,003**	**0.08927**
May 31, 2010	**8,003**	**0.08927**
June 30, 2010	**8,003**	**0.08927**
July 30, 2010	**8,004**	**0.08927**
August 31, 2010	**8,004**	**0.08927**
September 30, 2010	**8,007**	**0.08927**
October 29, 2010	**8,007**	**0.08927**
November 30, 2010	**8,007**	**0.08927**
December 15, 2010	**8,016**	**0.08927**
	96,071	**1.07124**

During the year ended December 31, 2009, the Fund declared total distributions to unitholders of $95,974. The amounts and record dates of distributions to unitholders were as follows:

		Trust Units
Record date	**$**	**Amount per Unit**
January 30, 2009	**8,008**	**0.08927**
February 27, 2009	**8,008**	**0.08927**
March 31, 2009	**7,995**	**0.08927**
April 30, 2009	**7,995**	**0.08927**
May 29, 2009	**7,995**	**0.08927**
June 30, 2009	**7,994**	**0.08927**
July 31, 2009	**7,995**	**0.08927**
August 31, 2009	**7,994**	**0.08927**
September 30, 2009	**7,994**	**0.08927**
October 30, 2009	**7,995**	**0.08927**
November 30, 2009	**7,994**	**0.08927**
December 31, 2009	**8,007**	**0.08927**
	95,974	**1.07124**

10 Commitments

Minimum lease commitments

Minimum lease commitments under operating leases with respect to laboratory and diagnostic equipment and premises for each of the next five years and thereafter are as follows:

	$
2011	23,694
2012	18,910
2013	13,301
2014	9,058
2015	6,289
Thereafter	12,663
	83,915

As at December 31, 2010, the Fund has service commitments of $72,433 payable between 2011 to 2015.

Guarantees

The Fund indemnifies its Trustees and Officers against any and all claims or losses reasonably incurred in the performance of their service to the Fund to the extent permitted by law. The Fund has acquired and maintains liability insurance for its Trusteeøs and Officers.

11 Income taxes

The effective income tax rate on consolidated earnings is influenced by items such as non-taxable income and non-deductible expenses:

For the year ended December 31	**2010** **$**	2009 $
Combined Canadian federal and provincial income tax at statutory rate of 30.61% (2009 ó 32.59%)	**7,779**	13,646
Increase (decrease) in statutory income tax resulting from the following:		
Fund income not taxable	**(28,900)**	(30,804)
Goodwill impairment	**9,820**	16,295
Benefit from inter-company financing structure	**(1,695)**	(3,369)
Change in valuation allowance	**9,358**	-
Changes in enacted tax rates	**-**	(7,742)
Difference in foreign tax rates	**(2,954)**	(186)
Non-taxable foreign exchange	**(246)**	(387)
Non-deductible expenses, non-taxable income and other	**845**	(1,061)
Recovery of income taxes	**(5,993)**	(13,608)

Future income tax assets (liabilities) of the Fund are as follows:

	December 31, 2010 **$**	**December 31, 2009** **$**
Differences in property and equipment, intangible assets	**(59,356)**	(67,867)

and licences asset bases		
Accounting reserve not deducted for taxes	**1,964**	4,037
Unrealized losses not deducted for taxes	**2,657**	3,578
Capital and non-capital loss carry-forwards	**15,605**	5,454
Financing costs	**2,065**	3,071
Other	**(68)**	(33)
	(37,133)	(51,760)
Valuation allowance	**(9,521)**	(486)
	(46,654)	(52,246)
Future income tax asset	**7,269**	3,397
Future income tax liability	**(53,923)**	(55,643)
	(46,654)	(52,246)

The Fund has $49,189 in non-capital loss carry-forwards as at December 31, 2010 (December 31, 2009 - $16,721), which are available to reduce future years' taxable income and begin to expire in 2028.

	Jurisdiction		
Year of expiry	**Canada** **$**	**U.S.** **$**	**Total** **$**
2028	1,769	4,671	6,440
2029	9,539	843	10,382
2030	11,761	20,606	32,367
Total	**23,069**	**26,120**	**49,189**

The Fund also has $1,310 of capital losses (December 31, 2009 - $2,007), which can be used to offset future capital gains and which do not expire.

A valuation allowance of $9,521 (December 31, 2009 - $486) was primarily established in respect of US operations.

12 Related party balances and transactions

The Fund leases facilities from a company that is controlled by a Trustee of the Fund. Rent expense for the year ended December 31, 2010 of $1,293 (year ended December 31, 2009 - $1,158) relating to these leased facilities, measured at the exchange amount as agreed to between the parties, has been included in operating, general and administrative expenses.

13 Statement of cash flows

	December 31, 2010 **$**	December 31, 2009 $
Net change in non-cash working capital items comprises		
Accounts receivable	**(5,214)**	2,024
Other current assets	**634**	(531)

Accounts payable and accrued liabilities	**(2,292)**	(2,952)
Income taxes recoverable/payable	**1,459**	5,229
	(5,413)	3,770

Purchases of property and equipment which were unpaid as at December 31, 2010 of $6,086 (December 31, 2009 - $5,810) are accounted for as non-cash transactions in the consolidated statement of cash flows. During the year ended December 31, 2010, the Fund financed the purchase of property and equipment of $3,817 (December 31, 2009 ó $1,334) with obligations under capital leases.

14 Industry cap agreement

On December 15, 2008, the Ontario Association of Medical Laboratories (õOAMLö) entered into a new three-year funding agreement with the MOH. Under terms of the Agreement, which is retroactive to April 1, 2008, the MOH has increased the provincial payment cap for laboratory services to OAML members to $628,400 for the MOH year ended March 31, 2009 (an increase of $18,300), $640,900 for the MOH year ending March 31, 2010 (an increase of $12,600) and $649,300 for the MOH year ending March 31, 2011 (an increase of $8,300). The Fundøs share of the above increases is approximately 30.6%. The industry cap agreement which provides funding for the provision of community-based services in Ontario, expires on March 31, 2011.

The Agreement also includes additional funding for the MOH years ending March 31, 2010 and 2011, provided industry billings exceed certain thresholds. The Fundøs share of additional funding in 2010 amounts to a maximum of $1,500 and a maximum of $1,800 in 2011. The Fundøs share of additional funding earned in the MOH year ended March 31, 2011 will be added to the provincial payment cap at the end of the three-year term.

Revenue is recognized based on managementøs best estimate of its share of the additional funding earned in the period based on information currently available. The following table reconciles the additional funding revenue recognized under the industry cap agreement:

	Available additional funding under the industry cap agreement	**Additional funding recognized**	
		For the year ended December 31, 2009	For the year ended December 31, 2010
MOH Year ended March 31, 2010	1,500	1,100	400
MOH Year ended March 31, 2011	1,800	-	1,400
Total	**3,300**	**1,100**	**1,800**

15 Revenue

For the year ended December 31, 2010, revenue from a major customer accounted for 63% (December 31, 2009 - 57%) of the Fundøs total revenue.

16 Goodwill

For the years ended December 31	**2010**	2009
	$	$
Balance at beginning of the year	**273,495**	337,293
Acquisitions and adjustments to goodwill (Note 21)	**(736)**	2,849
Impairment loss	**(32,081)**	(50,000)
Foreign exchange	**(2,666)**	(16,647)
Balance at the end of the year	**238,012**	273,495

In accordance with CICA Handbook section 3064, the Fund evaluates goodwill for impairment for each reporting unit. Reporting units are operating units or components of the business for which discrete financial information is available. The evaluation of goodwill for each reporting unit is based upon the following approach; the fair value of the reporting unit is compared to its carrying amount. Where the carrying amount is greater than the fair value, the implied fair value of the reporting unitøs goodwill is determined by allocating the fair value to the assets and liabilities of the reporting unit with any of the remainder being the implied fair value of goodwill. The implied fair value of the reporting unitøs goodwill is then compared to the carrying amount of that goodwill to determine any impairment loss. Any impairment loss is recognized in the consolidated statement of earnings.

The fair value of reporting units is estimated using the income approach (which is based on the discounted cash flow of the entity). Because the business is assumed to continue in perpetuity, the discounted future cash flow includes a terminal value.

In the fourth quarter, there were developments in the U.S. that negatively impact reimbursements effective January 1, 2011. The changes relate to bundling of certain CT reimbursement codes and a decrease in the conversion factor used in the formula to determine Medicare reimbursement rates for all modalities. As a result of these developments and volume declines during 2010, and considering the current health care and economic environments, the short term projections of revenue and EBITDA growth rates have declined compared to projections as at December 31, 2009. The volume declines are expected to continue in the short term. The long-term volume trends, however, are expected to increase. Based on the evaluation performed this year, the Fund determined that the fair value of its U.S. reporting units was lower than the carrying value of the net assets. The long-term growth assumptions incorporated into the discounted cash flow for the U.S. reporting units reflect managementøs long-term view of the market and a discount rate of 12% based on the weighted average cost of capital a market participant would use if evaluating the reporting unit as an investment. The discounted cash flow analysis reflects the changes in reimbursement rates and volumes in the forecast, which results in lower expected revenues and operating income. Accordingly, for the year ended December 31,

2010, the Fund has recorded an impairment loss of $51,202 (December 31, 2009 - $50,000) comprised of:

For the years ended December 31	**2010**	2009
	$	$
Goodwill impairment	**32,081**	50,000
Intangible asset impairment	**18,861**	-
Property and equipment impairment	**260**	-
	51,202	50,000

17 Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss) is included on the consolidated balance sheets as a separate component of unitholdersø equity and includes the change in fair value of interest rate swaps, foreign currency translation adjustment on the consolidation of the U.S. operating segment, and the foreign exchange gains/losses on the U.S. dollar denominated debt.

The accumulated other comprehensive income (loss) balance is comprised of the following:

	December 31, 2010	December 31, 2009
	$	$
Unrealized loss on interest rate swap, net of income taxes of $2,987 as at December 31, 2010 (December 31, 2009 - $3,466)	**(6,983)**	(8,385)
Foreign currency translation adjustment, net of income taxes of $162 as at December 31, 2010 (December 31, 2009 - $341)	**32**	3,689
	(6,951)	(4,696)

The foreign currency translation adjustment includes a gain of $1,538 (December 31, 2009 loss on translation - $1,823), net of an income tax of $162 (December 31, 2009 - income tax recovery $341), on the translation of U.S. dollar denominated debt designated as a hedge of the Fundøs net investment in its U.S. subsidiary.

During the year ended December 31, 2010, the Fund transferred a foreign exchange gain of $619 (December 31, 2009 - $646) and an income tax recovery of $63 (December 31, 2009 - $72) from other comprehensive income to statement of earnings, which related to the dividends received from its U.S. subsidiaries.

18 Other expenses, net

During the year ended December 31, 2010, the Fund incurred restructuring charges related to the departure of the President and CEO, and the CFO of the U.S. medical imaging business and the

departure of an executive. The following is the reconciliation of the restructuring accrual for the year ended December 31, 2010.

For the year ended December 31	**2010** **$**
Balance at beginning of the year	**-**
Restructuring charge	**2,370**
Payments in the year	**(778)**
Foreign exchange	**(55)**
Balance at the end of the year	**1,537**
Classified in accounts payable and accrued liabilities	**1,353**
Classified in other long-term liabilities	**184**

As part of the restructuring, the Fund also settled certain amounts owing to the President and CEO, and the CFO of the U.S. medical imaging business. The carrying value of the liability as at December 31, 2009, was $675, and was classified as other long-term liabilities in the consolidated financial statements. This liability was settled for $542 and the balance of $133 has been accounted for as a reduction in other expenses. As part of the restructuring related to an executive, the Fund also accelerated the LTIP vesting, which has resulted in an additional LTIP expense of $108 for the year ended December 31, 2010.

During the year ended December 31, 2010, the Fund expensed $1,047 (December 31, 2009 - $948) of professional related to acquisitions not likely to be completed.

The following is the reconciliation of the other expenses for the year ended December 31, 2010.

For the year ended December 31	**2010** **$**	2009 $
Restructuring charge	**2,370**	**-**
LTIP expense related to restructuring	**108**	**-**
Potential acquisition related charges	**1,047**	**948**
Recovery related to acquisition (Note 21)	**(309)**	**-**
Gain on settlement of other long-term liability	**(133)**	**-**
Total other expenses	**3,083**	**948**

19 Financial instruments

Classification of financial instruments

Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following categories: held for trading, held to maturity, available for sale, loans and receivables, other financial liabilities and derivatives. As at December 31, 2010, the classification of the financial instruments, as well as their carrying amounts and fair values, are shown in the table below.

	Classification	Measurement	Carrying amount $	Fair value $
Cash and cash equivalents	Held for trading	Fair value	**9,665**	**9,665**
Accounts receivable	Loans and receivables	Amortized cost	**54,421**	**54,421**
Short-term investment	Held for trading	Fair value	**194**	**194**
Long-term note receivable	Loans and receivables	Amortized cost	**3,442**	**3,442**
Interest rate swap loss	Derivative	Fair value	**(9,970)**	**(9,970)**
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	**(44,779)**	**(44,779)**
Long-term debt and obligations under capital leases	Other financial liabilities	Amortized cost	**(335,148)**	**(335,148)**

The following table details the fair value hierarchy of financial instruments by level as at December 31, 2010:

	Quoted prices in active market (Level 1) $	Other observable inputs (Level 2) $	Unobservable inputs (Level 3) $	Total $
Financial assets				
Short-term investment	194	-	-	194
Financial liabilities				
Interest rate swap loss	-	(9,970)	-	(9,970)

As at December 31, 2009, the classification of the financial instruments, as well as their carrying amounts and fair values, are shown in the table below.

	Classification	Measurement	Carrying amount $	Fair value $
Cash and cash equivalents	Held for trading	Fair value	**21,787**	**21,787**
Accounts receivable	Loans and Receivable	Amortized cost	**56,616**	**56,616**
Short-term investment	Held for trading	Fair value	**211**	**211**
Interest rate swap loss	Derivative	Fair value	**(11,852)**	**(11,852)**
Accounts payable, accrued liabilities and distributions payable	Other financial liabilities	Amortized cost	**(56,414)**	**(56,414)**
Long-term debt and obligations under capital leases	Other financial liabilities	Amortized cost	**(320,502)**	**(320,502)**

The following table details the fair value hierarchy of financial instruments by level as at December 31, 2009:

	Quoted prices in active market (Level 1) $	Other observable inputs (Level 2) $	Unobservable inputs (Level 3) $	Total $
Financial assets				
Short-term investment	211	-	-	211
Financial liabilities				
Interest rate swap loss	-	(11,852)	-	(11,852)

Fair value

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and distribution payable are short-term financial instruments whose fair value approximates the carrying amount given that they will mature shortly. The carrying value of the short-term investments is determined using quoted market prices. The carrying value of the long-term note receivable approximates its fair value.

Since the interest rate swap contract does not trade, the price of an identical instrument cannot be observed. The swap curve is an interest rate curve that is observable and therefore the interest rate swap may be classified as a Level 2, as described earlier. The fair value for the interest rate swap was derived using the notional amount of the interest rate swap multiplied by the observable inputs of time to maturity, interest rates and credit spreads with changes in fair values recorded in the consolidated statement of comprehensive income. As the interest rate swap has been designated as a hedge, any ineffective portion of the hedge would be recorded in the consolidated statement of earnings. In accordance with EIC-173 of the CICA õCredit Risk and the Fair Value of Financial Assets and Financial Liabilitiesö, the Fundøs own credit risk and the credit risk of the counterparty are taken into consideration in determining the fair value of the interest rate swap.

As at December 31, 2010 and December 31, 2009, the fair value of the Fundøs long-term debt approximates its carrying values as the interest rate floats. The fair value of the capital leases is not materially different from its carrying value.

Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

Objectives and policy relating to financial risk management

The Fund is exposed to various financial risks resulting from its operating, investing and financing activities. Financial risk management is carried out by the Fund's management. The Fund does not enter into arrangements on financial instruments, including financial derivatives,

for speculative purposes. The Fund's main financial risk exposures, as well as its risk management policy, are detailed as follows:

Foreign currency risk
The Fund is exposed to exchange risk on U.S. currency denominated debt as well as its U.S. operations. There is a risk to the Fundøs earnings from fluctuations in Canadian and U.S. dollar exchange rates and the degree of volatility of these rates as the Fundøs financial results are reported in Canadian dollars.

The Fundøs U.S. dollar, long-term senior unsecured debt had been designated as a hedge of the net investment in the U.S. operations. For the year ended December 31, 2010, accumulated other comprehensive income included a foreign exchange gain, net of tax, of $1,538 (December 31, 2009 foreign exchange loss, net of tax - $1,823) on the U.S. dollar senior unsecured debt and a currency translation adjustment of $1,506 (December 31, 2009 - $5,512) relating to the exchange translation of the U.S. dollar investment in ARS.

At December 31, 2010, the Fund has financial assets of U.S.$14,601 (December 31, 2009 ó U.S.$21,376) and financial liabilities of U.S.$83,341 (December 31, 2009 ó U.S.$90,883) denominated in U.S. dollars. A 5% depreciation or appreciation in the Canadian dollar against the U.S. dollar, assuming that all other variables had remained the same, would have resulted in an increase or decrease in other comprehensive income (loss) of $2,997 for the year ended December 31, 2010 (December 31, 2009 - $3,194).

At December 31, 2010, the net assets in the U.S. operations totaled $64,151 (December 31, 2009 - $116,944) and long-term senior unsecured debt of $66,262 (December 31, 2009 - $69,727) which had been designated as a hedge of the net investment in the U.S. operations. A 5% depreciation or appreciation in the Canadian dollar against the U.S. dollar, assuming that all other variables had remained the same, would have resulted in an increase or decrease, in other comprehensive loss of $316 for the year ended December 31, 2010 (December 31, 2009 ó other comprehensive income of $2,804).

Liquidity risk
The purpose of liquidity risk management is to maintain a sufficient amount of cash and cash equivalents and to ensure the Fund has sufficient authorized credit facilities as financing sources. The Fund prepares projections to ensure it has sufficient funds to fulfill its obligations. The ability to pay its obligations relies on the Fund collecting its accounts receivable in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. The Fundøs accounts payable and accrued liabilities of $44,779 are all due for payment within twelve months of the balance sheet date. The Fundøs financial obligations for each for the next five years are as follows:

	Principal $	Interest $
2011	3,132	12,661
2012	2,868	12,482
2013	326,427	1,326
2014	2,069	86
2015 and thereafter	652	14
	335,148	26,569

The estimated net payments required under the interest rate swap are as follows:

	$
2011	5,176
2012	4,086
2013	882
	10,144

As at December 31, 2010, the Fund was in compliance with all financial covenants in its credit agreements.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Fund to credit risk consist principally of cash and cash equivalents, accounts receivable, long-term note receivable and the interest rate swap contract. The Fund places its cash and cash equivalents and the interest rate swap with high credit quality financial institutions. The carrying amount of the accounts receivable, net of applicable allowances for doubtful accounts, represent the Fundøs maximum potential credit risk.

Canadian operations

The Fund minimizes the credit risk of its accounts receivable by monitoring accounts receivable aging on a regular basis. Of the Fundøs Canadian trade accounts receivable as at December 31, 2010, $59 (December 31, 2009 - $187) is past due (greater than 90 days). As at December 31, 2010, the MOH accounted for approximately 92% (December 31, 2009 - 91%) of the Fundøs Canadian trade accounts receivable. Management believes this balance is fully collectible.

	December 31, 2010 **$**	December 31, 2009 $
Total trade accounts receivable	**45,526**	40,940
Less: allowance for doubtful accounts	**(1,530)**	(1,457)
Total accounts receivable, net	**43,996**	39,483

Of which:		
0-60 days	**43,547**	38,373
61-90 days	**390**	923
91-120 days	**23**	114
Over 120 days	**36**	73
Total accounts receivable, net	**43,996**	39,483

U.S. operations

Upon the amendment of the MSA between ARS and ARA, the trade accounts receivable is due from ARA and is collectible upon ARAøs collection of their trade accounts receivable from its customers. Accordingly, the Fund is exposed to credit risk related to ARAøs ability to pay and ARAøs ability to collect the trade accounts receivable from the customers. The Fund minimizes the credit risk of its trade accounts receivable by monitoring trade accounts receivable aging as well as performing detailed reviews for each of its overdue customers (greater than 45 days). As at December 31, 2010, three payors, with greater than ten percent concentration in trade accounts receivable, accounted for 54% (December 31, 2009 ó one payor - 31%) of the Fundøs U.S. trade accounts receivable. Management believes that this balance is fully collectible.

The following table summarizes the details of the aging of U.S. trade accounts receivables as well as the related allowance for doubtful accounts:

	December 31, 2010 $	December 31, 2009 $
Total accounts receivable	**9,931**	20,952
Less: allowance for doubtful accounts	**(1,214)**	(5,717)
Total accounts receivable, net	**8,717**	15,235
Of which:		
0-60 days	**5,842**	9,197
61-90 days	**717**	913
91-120 days	**499**	848
Over 120 days	**1,659**	4,277
Total accounts receivable, net	**8,717**	15,235

Interest Rate Risk

The Fund has five-year non-revolving term loans of $207,800 (December 31, 2009 - $207,800) and US$66,622 (December 31, 2009 - $66,622), and has $50,570 (December 31, 2009 - $30,570) outstanding on its revolving credit facility. These loans bear interest at Canadian prime rate, U.S. base rate, bankerøs acceptance or LIBOR plus the applicable margins. The applicable margin on the loans ranges between 0.55% and 1.0%.

As at December 31, 2010, the principal amount owing under capital lease obligations is $11,331 (December 31, 2009 - $12,788).

The Fund uses an interest rate swap contract to manage part of its exposure to movements in interest rates on its five-year non-revolving variable interest term loan. An increase or decrease of 50 basis points in the interest rate as at December 31, 2010 would have decreased other long-term liabilities by $2,251 (December 31, 2009 - $2,960) or increased other long-term liabilities by $2,276 (December 31, 2009 - $3,011), and other comprehensive income would have increased by $1,679 (December 31, 2009 - $2,206) or decreased by $1,698 (December 31, 2009 - $2,245), net of income tax, respectively.

The Fund has performed a sensitivity analysis on its interest rate risk at December 31, 2010, to determine how a change in interest rates would impact other comprehensive income and net earnings. During the year ended December 31, 2010, the Fund incurred $12,525 (December 31, 2009 - $13,562) of interest expense on its loans. An increase or decrease of 50 basis points in the average interest rate during the year would have decreased or increased net earnings and other comprehensive income by $1,119 (December 31, 2009 - $1,009), respectively. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

20 Capital disclosures

The Fund's capital is comprised of units of the Fund and deficit. The Fund manages its capital to ensure financial flexibility to increase unitholder value through organic growth and selective acquisitions, as well, as to allow the Fund to respond to changes in economic and/or marketplace conditions. The Fund maintains an appropriate and prudent allocation between debt and equity with a view to balancing its flexibility, while minimizing its cost of capital. The Fund is not subject to any externally imposed capital requirements. There were no changes in the Fundøs approach to capital management during the year.

21 Business acquisitions

Acquisitions in the year ended December 31, 2010

On November 17, 2010, the Fund completed the asset acquisition of Myo Thant, M.D., P.A, in Bel Air, Maryland for a cash consideration of $1,158. The purchase price relating to the acquisition was allocated as follows:

	$
Property and equipment	495
Intangible assets	663
	1,158

Acquisitions in the year ended December 31, 2009

On December 17, 2009, the Fund completed the acquisition of The Imaging Institute ("TII"), consisting of five fully digitized medical imaging centers in the Providence region of Rhode Island. Total cash consideration paid for this acquisition was $10,561, subject to normal post-closing adjustments.

The purchase price relating to the acquisition was allocated as follows:

	TII $
Cash	**482**
Working capital	**(482)**
Intangible assets	**5,847**
Goodwill	**2,849**
Property and equipment	**3,063**
Long-term debt	**(1,198)**
Cash consideration paid	**10,561**

The Goodwill acquired is deductible for income tax purposes.

During the year ended December 31, 2010, the Fund settled a dispute with the former owner of TII in the amount of $1,303. The amount held in escrow of $995 has been accounted for as a reduction in the goodwill related to the TII acquisition. The balance $309 was recorded as a gain in other expenses, net. The Fund also incurred additional acquisition related costs of $259 in the year ended December 31, 2010.

22 Segmented information

The performance of geographic operating segments is monitored based on earnings before interest, taxes, depreciation, amortization, other expenses, and provisions for, or recovery of, impairments of investments and other assets. The following is a breakdown by reporting segment:

For the year ended	**December 31, 2010**			December 31, 2009		
	Canada $	**United States $**	**Total $**	Canada $	United States $	Total $
Revenue	**368,378**	**112,004**	**480,382**	362,099	156,379	518,478
Income before the undernoted	**117,365**	**7,695**	**125,060**	120,964	19,154	140,118
Amortization of property and equipment	**12,604**	**13,854**	**26,458**	11,254	16,469	27,723
Amortization of indefinite lived intangible assets	**2,399**	**4,334**	**6,733**	1,864	4,085	5,949
Goodwill impairment	**-**	**32,081**	**32,081**	-	50,000	50,000
Impairment of long-lived assets	**-**	**19,121**	**19,121**	-	-	-
Loss on sale of property and equipment	**-**	**-**	**-**	-	290	290
Foreign exchange gain	**(353)**	**-**	**(353)**	(225)	-	(225)
Other expenses	**1,884**	**1,199**	**3,083**	948	-	948
Interest expense	**11,765**	**760**	**12,525**	12,734	828	13,562

Provision for (recovery of) income taxes	**(159)**	**(5,834)**	**(5,993)**	(7,661)	(5,947)	(13,608)
Net earnings (loss) for the year	**89,225**	**(57,820)**	**31,405**	102,050	(46,571)	55,479
Property and equipment	**52,030**	**34,681**	**86,711**	43,671	43,910	87,581
Goodwill	**219,985**	**18,027**	**238,012**	219,985	53,510	273,495

23 Management service agreement

As part of the acquisition of ARS, the Fund, had an exclusive 40-year agreement to provide management services to an affiliated physician association, ARA, pursuant to which ARA provides radiologists who perform medical imaging reading services at ARS facilities and under hospital contracts. Effective April 1, 2010, ARS and ARA entered into an amended and restated MSA.

Under the new MSA, ARS has no financial controlling interest in ARA; nor is ARS the primary beneficiary under CICA Accounting Guideline 15 õConsolidation of Variable Interest Entitiesö and accordingly, the financial position and operating results of ARA are no longer consolidated. The adjustment to remove the assets and liabilities from the consolidated balance sheet as of April 1, 2010, is as follows:

	$
Accounts receivable	**3,627**
Other current assets	**328**
Investments and other assets	**152**
Accounts payable and accrued liabilities	**(3,811)**
Other long-term liabilities	**(296)**
Net assets	**-**

No gain or loss has been recognized as a result of the deconsolidation of ARA. Upon signing the MSA, ARS made a payment of $1,654 to ARA. The payment was recorded as an intangible asset and was expected to be amortized over the initial term of the MSA of 62 months. However, the intangible asset was written off as part of the impairment of long-lived assets of the U.S. operations.

Under the MSA, ARS provides medical imaging equipment and access to ARSø facilities, and certain management and administrative services to ARA, including accounting, payroll processing and benefit administration, credentialing and continuing medical education tracking, billing and collection information and consulting services in exchange for a fee based on percentage of global revenue collections from the imaging services. ARA maintains full control over the radiologists it employs.

The MSA has an initial term of 62 months and will automatically be renewed for an additional 5 years unless terminated by either party.

In addition, the MSA requires that a portion of the receivable due from ARA be converted to a long-term note receivable. The long-term note receivable estimated at $3,442 will bear interest at the greater of prime plus 1.25% or 5.75%, is secured by accounts receivable of ARA and is due upon the expiration of the MSA.