



Unaudited Consolidated Financial Statements of

**ALARIS ROYALTY CORP.**

For the three and nine months ended September 30, 2010

# ALARIS ROYALTY CORP.

Consolidated Balance Sheets, Unaudited

	September 30, 2010	December 31, 2009
<b>Assets</b>		
Current assets:		
Cash	\$ 1,466,858	\$ 3,826,000
Accounts receivable	177,166	2,470
Prepaid expenses	324,847	103,472
Future income taxes (note 10)	3,201,429	2,996,000
	<u>5,170,300</u>	<u>6,927,942</u>
Investment tax credit receivable (note 10)	11,030,007	11,030,007
Future income taxes (note 10)	22,812,505	22,248,900
Equipment (note 4)	78,544	74,477
Investments (note 3)		
Preferred LP units	124,414,079	111,124,642
Intangible assets	12,940,223	13,070,150
	<u>137,354,302</u>	<u>124,194,792</u>
	<u>\$ 176,445,658</u>	<u>\$ 164,476,118</u>
<b>Liabilities and Shareholders' Equity/(Deficit)</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 543,090	\$ 939,085
Dividends payable	1,106,085	802,604
Future income taxes (note 10)	47,808	47,808
Bank indebtedness (note 5)	4,925,000	2,850,000
Subordinated debt (note 5)	1,200,000	6,500,000
	<u>7,821,983</u>	<u>11,139,497</u>
Bank indebtedness (note 5)	14,775,000	19,700,000
Future income taxes (note 10)	4,166,813	1,347,755
Deferred credit (note 10)	21,423,570	23,661,017
Shareholders' equity/(deficit):		
Shareholder's capital (note 6)	131,023,606	111,125,039
Warrants (note 6)	470,702	845,000
Contributed surplus	2,699,533	1,471,333
Deficit	(5,935,549)	(4,813,523)
	<u>128,258,292</u>	<u>108,627,849</u>
Commitments (note 12)		
	<u>\$ 176,445,658</u>	<u>\$ 164,476,118</u>

See accompanying notes to consolidated financial statements.

# ALARIS ROYALTY CORP.

Consolidated Statements of Operations and Deficit, Unaudited

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
<b>Revenues:</b>				
Royalties and distributions	\$ 4,165,073	\$ 4,334,814	\$12,253,560	\$13,275,814
Interest and other	-	-	2,190	3,637
	<u>4,165,073</u>	<u>4,334,814</u>	<u>12,255,750</u>	<u>13,279,451</u>
<b>Expenses:</b>				
Interest	307,642	532,529	1,176,634	1,641,490
Non-cash stock based compensation (note 8)	444,500	(103,551)	1,330,500	764,269
Salaries and benefits	204,787	207,093	628,612	657,770
Corporate and office	131,271	88,402	467,226	353,354
Legal and accounting fees	118,446	111,315	321,217	359,573
Stock based compensation (note 8)	57,378	49,163	164,969	172,191
Depreciation and amortization	47,611	47,830	141,997	161,369
	<u>1,311,635</u>	<u>932,781</u>	<u>4,231,155</u>	<u>4,110,016</u>
Net Income before taxes	2,853,438	3,402,033	8,024,595	9,169,435
Future income tax expense (note 10)	45,263	52,710	138,955	282,919
Net Income and other comprehensive income for the period	2,808,175	3,349,323	7,885,640	8,886,516
Deficit, beginning of period	(5,431,149)	(12,458,279)	(4,813,523)	(13,239,854)
Dividends to shareholders (note 7)	(3,312,575)	(1,917,362)	(9,007,666)	(6,662,782)
Deficit, end of period	<u>\$(5,935,549)</u>	<u>\$(11,026,318)</u>	<u>\$(5,935,549)</u>	<u>\$(11,026,318)</u>
Earnings per share, basic	\$ 0.20	\$ 0.37	\$ 0.62	\$ 0.97
Earnings per share, fully diluted	\$ 0.20	\$ 0.34	\$ 0.59	\$ 0.91
Weighted average shares outstanding, basic	13,790,008	9,129,890	12,692,793	9,127,124
Weighted average shares outstanding, fully diluted	14,376,132	9,723,458	13,278,917	9,727,304

See accompanying notes to consolidated financial statements.

# ALARIS ROYALTY CORP.

Consolidated Statements of Cash Flows, Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Cash provided by (used in):				
Operations:				
Net Income for the period	\$ 2,808,175	\$ 3,349,323	\$ 7,885,640	\$ 8,876,318
Add non-cash items:				
Depreciation and amortization	47,611	47,831	141,997	161,370
Non-cash stock based compensation (note 8)	444,500	(103,551)	1,330,500	764,269
Income tax expense	45,263	52,710	138,955	282,919
	3,345,549	3,346,313	9,497,092	10,084,876
Change in non-cash working capital	131,383	(19,193)	(792,064)	(73,740)
	3,476,932	3,327,120	8,705,028	10,011,136
Investing:				
Purchase of capital assets	(12,778)	(128)	(16,141)	(13,249)
Purchase of Preferred LP units	(44,904)	(1,000,000)	(13,289,437)	(1,000,000)
	(57,682)	(1,000,128)	(13,305,578)	(1,013,249)
Financing:				
Proceeds from exercise of warrants	538,125	-	3,820,500	-
New share capital	(38,250)	-	15,275,096	-
Dividends to shareholders	(3,306,544)	(1,917,190)	(8,704,188)	(7,118,230)
Repayment of subordinated debt	-	-	(5,300,000)	-
Repayment of senior debt	(950,000)	(500,000)	(2,850,000)	(1,500,000)
	(3,756,669)	(2,417,190)	2,241,408	(8,618,230)
Increase/(decrease) in cash	(337,419)	(90,198)	(2,359,142)	379,657
Cash, beginning of period	1,804,277	2,213,791	3,826,000	1,743,936
Cash, end of period	\$ 1,466,858	\$ 2,123,593	\$ 1,466,858	\$ 2,123,593

See accompanying notes to consolidated financial statements

# ALARIS ROYALTY CORP.

Notes to Unaudited Consolidated Financial Statements

Three and nine months ended September 30, 2010

## 1. Basis of presentation:

Alaris' operations are conducted through a partnership. The partnership's operations consist primarily of investments in operating entities, typically in the form of long-term license and royalty arrangements or preferred limited partnership interests.

## 2. Significant accounting policies:

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. A comprehensive list of significant accounting policies are included in the audited financial statements for the years ended December 31, 2009 and 2008.

## 3. Investments:

September 30, 2010	Acquisition cost	Capitalized costs	Accumulated amortization	Net cost
LifeMark Health	\$ 67,500,000	\$ 291,362	\$ –	\$ 67,791,362
LMS	51,000,000	333,280	–	51,333,280
KMH	5,000,000	244,534	–	5,244,534
Diligence costs capitalized	–	44,903	–	44,903
Total Preferred LP Units	123,500,000	914,079	–	124,414,079
End of the Roll	7,200,000	74,920	(500,112)	6,774,808
MEDIchair	6,500,000	83,758	(418,343)	6,165,415
Total Intangible Assets	13,700,000	158,678	(918,455)	12,940,223
	\$ 137,200,000	\$ 1,072,757	\$ (918,455)	\$ 137,354,302

### December 31, 2009

Lifemark Health	\$ 59,500,000	\$ 291,362	\$ –	\$ 59,791,362
Lower Mainland Steel	51,000,000	333,280	–	51,333,280
Total Preferred LP Units	110,500,000	624,642	–	111,124,642
End of the Roll	7,200,000	74,920	(431,910)	6,843,010
MEDIchair	6,500,000	83,758	(356,618)	6,227,140
Total Intangible Assets	13,700,000	158,678	(788,528)	13,070,150
	\$ 124,200,000	\$ 783,320	\$ (788,528)	\$ 124,194,792

# ALARIS ROYALTY CORP.

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Three and nine months ended September 30, 2010

### 3. Investments (continued):

Royalties and distributions:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
LifeMark Health	\$ 2,938,142	\$ 2,002,245	\$ 8,375,449	\$ 5,945,128
LMS	386,514	1,733,250	1,612,328	5,376,757
End of the Roll	323,057	308,364	1,032,528	1,074,617
MEDchair	298,610	290,955	888,116	879,312
KMH	218,750	-	345,139	-
	<u>\$ 4,165,073</u>	<u>\$ 4,334,814</u>	<u>\$12,253,560</u>	<u>\$13,275,814</u>

#### I – Preferred LP Units

##### (a) Investment in LifeMark Health Limited Partnership ("LifeMark Health"):

The Corporation holds 900,000 class A preferred partnership units ("LifeMark A Units") and 5,850,000 class B preferred partnership units ("LifeMark B Units") in LifeMark Health (the "LifeMark Investment") and were acquired as follows:

	A Units	B Units	Cost
December 31, 2008	900,000	3,750,000	\$ 46,500,000
June 30, 2009	-	100,000	1,000,000
October 22, 2009	-	1,200,000	12,000,000
May 18, 2010	-	800,000	8,000,000
<u>September 30, 2010</u>	<u>900,000</u>	<u>5,850,000</u>	<u>\$ 67,500,000</u>

Pursuant to the LifeMark Health partnership agreement (the "LifeMark Partnership Agreement") dated December 30, 2004, the LifeMark A Units entitle the Corporation to receive an annual preferred distribution (the "A Unit Preferred Distribution") in priority to distributions on LifeMark Health's other partnership units in a minimum amount of \$1.46 million. The minimum amount is adjusted in each subsequent fiscal year to the greater of (i) \$1.46 million; and (ii) the A Unit Preferred Distribution for the prior fiscal year multiplied by the percentage increase in LifeMark Health's Same Clinic Sales (as defined in the LifeMark Partnership Agreement), being generally LifeMark Health's annual revenue from clinics that have been open for at least two years, for the previous year. Distributions on the LifeMark A Units are receivable monthly.

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Notes to Unaudited Consolidated Financial Statements, page 3

Three and nine months ended September 30, 2010

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## 3. Investments (continued):

### (a) Investment in LifeMark Health Limited Partnership ("LifeMark Health") (continued):

Pursuant to the LifeMark Partnership Agreement, the LifeMark B Units entitle the Corporation to receive an annual preferred distribution (the "B Unit Preferred Distribution") in priority to distributions on LifeMark Health's other partnership units, other than the LifeMark A Units, in an amount equal to the B Unit Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in LifeMark Health's Same Clinic Sales for the previous fiscal year. Distributions on the LifeMark B Units are receivable monthly.

LifeMark Health has the option at any time after December 30, 2009 (i) to repurchase all (but not less than all) of the LifeMark A and B Preferred Units at a pre-negotiated premium to the original purchase price.

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

The Corporation holds 510,000 Preferred partnership units ("LMS Units") in Lower Mainland Steel (the "LMS Investment"). 150,000 of the LMS Units were acquired on February 2, 2007 for an aggregate acquisition cost of \$15 million. Alaris acquired another 360,000 LMS Units on December 21, 2007 for an aggregate acquisition cost of \$36 million.

Pursuant to the LMS partnership agreement (the "LMS Partnership Agreement") dated April 2, 2007 and as amended December 21, 2007, the LMS Units entitle the Corporation to receive an annual preferred distribution (the "Preferred Distribution") in priority to distributions on LMS' other partnership units. The base is in two distinct portions and is adjusted at two points (January 1<sup>st</sup> and April 1<sup>st</sup>) in each subsequent twelve month period to the Preferred Distribution for the prior twelve month period multiplied by the percentage increase or decrease in LMS' Gross Profit (as defined in the LMS Partnership Agreement) for the most recently completed fiscal year. Distributions on the LMS Units are receivable monthly.

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

# ALARIS ROYALTY CORP.

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Three and nine months ended September 30, 2010

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### 3. Investments (continued):

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

The Corporation holds 50,000 Preferred partnership units ("KMH Units") in KMH Limited Partnership (the "KMH Investment"). 30,000 of the KMH Units were acquired on April 27, 2010 for an aggregate acquisition cost of \$3 million. Alaris acquired another 20,000 KMH Units on May 18, 2010 for an aggregate acquisition cost of \$2 million.

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

KMH has the option at any time after April 27, 2013 to repurchase all (but not less than all) of the KMH Units at a pre-negotiated premium to the original purchase price.

#### II – Intangible Assets

#### (d) Investment in End of the Roll Carpet and Vinyl ("End of the Roll"):

On May 1, 2005, the Corporation purchased certain intellectual property (the "ER IP") from End of the Roll for an aggregate purchase price of \$7.2 million pursuant to an acquisition agreement (the "ER Acquisition Agreement") dated May 1, 2005 (the "End of the Roll Investment"). The ER IP includes End of the Roll's trademarks, trade names, website, and proprietary system for operating franchises. The ER IP was subsequently licensed to End of the Roll for a term (the "Term") of 80 years pursuant to a license agreement (the "ER License Agreement") dated May 1, 2005 in consideration of an annual royalty (the "Royalty"). The Royalty for the first 12-month period from May 1, 2005 to April 30, 2006 was \$1.2 million (the "Initial Royalty"). The Royalty for each subsequent 12-month period during the Term is calculated by increasing or decreasing the Royalty for End of the Roll's fiscal year just ended by the percentage change in Same Store Sales (as defined in the ER License Agreement), being generally the total sales of all franchisee retail stores that have been open for at least two years, over the fiscal year immediately preceding the fiscal year just ended. Royalty payments are receivable monthly.

End of the Roll has the option at any time after May 1, 2010 to repurchase the ER IP (and terminate the Royalty) at a pre-negotiated premium to the original purchase price.

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Three and nine months ended September 30, 2010

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### 3. Investments (continued):

(e) Investment in MEDlchair Ltd. ("MEDlchair"):

On September 12, 2005, the Corporation purchased certain intellectual property (the "MEDlchair IP") from MEDlchair for an aggregate purchase price of \$6.5 million (the "MEDlchair Investment") pursuant to an acquisition agreement (the "MEDlchair Acquisition Agreement") dated September 12, 2005. The MEDlchair IP includes MEDlchair's trademarks, trade names, website, and proprietary system for operating franchises. The MEDlchair IP was subsequently licensed to MEDlchair for a term (the "Term") of 80 years pursuant to a license agreement (the "MEDlchair License Agreement") dated September 12, 2005 in consideration of an annual royalty (the "Royalty"). The Royalty for the 12-month period from October 1, 2006 to September 30, 2007 was \$1.053 million. The Royalty for each subsequent 12-month period during the Term is calculated by increasing or decreasing the Royalty in MEDlchair's fiscal year just ending by the percentage change in Same Store Royalties (as defined in the MEDlchair License Agreement), being generally the total annual royalties received by MEDlchair from all franchisees whose retail stores have been opened for at least two years over the fiscal year immediately preceding the fiscal year just ending, subject to a maximum percentage change in any year of 10%.

MEDlchair has the option at any time after October 1, 2010 to repurchase the MEDlchair IP (and terminate the Royalty) at a pre-negotiated premium to the original purchase price.

### 4. Equipment:

Equipment consists of leasehold improvements, furniture and fixtures, and computer equipment. The amounts are net of accumulated depreciation of \$116,604 (December 31, 2009 - \$104,532).

### 5. Debt

The Corporation has a \$25,000,000 secured revolving credit facility with a syndicate of Canadian chartered banks. Interest is payable at the lenders' prime rate plus 3.0% (6.0% at September 30, 2010). The term out date under the credit facility is December 17, 2010. If an extension is not received by December 17, 2010, the facility will be repaid in thirty-six equal monthly installments commencing January 18, 2011. As part of an amendment to the original facility, the banks required principal repayments of \$950,000 on December 31, 2009 and then in each of the first three quarters in 2010 (total of \$2.85 million). Therefore at September 30, 2010, the first nine months of potential repayments should the facility not be renewed are shown as a current liability. There are financial covenants under this facility and at September 30, 2010, the Corporation is in compliance with each of the covenants based on a letter received by the Corporation from the lending syndicate clarifying the exclusion of certain non-cash and extraordinary amounts in the calculation of the covenants for the remainder of the term of the agreement.

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Three and nine months ended September 30, 2010

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## 5. Debt (continued):

The Corporation has a \$1,200,000 unsecured demand facility with a company controlled by its largest shareholder. Interest is payable at 13.00% per annum.

## 6. Shareholders' equity:

The Corporation has authorized, issued and outstanding, 13,826,063 voting and 666,665 non-voting common shares.

Issued Common Shares	Number of Shares	Amount
Balance at December 31, 2009	10,799,098	\$ 103,125,039
Issued in lieu of dividends on restricted share units	10,900	102,300
Warrants exercised in the period	509,400	3,820,500
Fair value of warrants exercised in the period	-	374,298
Issued by short form prospectus	1,840,000	16,560,000
Short form prospectus costs	-	(1,284,904)
Income tax benefit of share issue costs	-	326,373
Balance at September 30, 2010 (Voting shares)	13,159,398	\$ 123,023,606
Non-voting shares	666,665	8,000,000
Balance at September 30, 2010 (Voting, non-voting)	13,826,063	\$ 131,023,606

Issued Warrants	Number of Warrants	Amount
Balance at December 31, 2009	1,150,000	\$ 845,000
Exercised during the period	(509,400)	(374,298)
Balance at September 30, 2010	640,600	\$ 470,702

The warrants are exercisable at \$7.50 at any time up to twenty-four (24) months from the date of their issue (October 22, 2011), subject to a mandatory exercise if, any time after twelve (12) months from their issue, if the volume weighted average price of the voting common shares on the Toronto Stock Exchange is above \$9.00 per common share for twenty (20) consecutive trading days.

## 7. Dividends:

For January and February 2010, the Corporation had declared a dividend of \$0.07 per voting and non-voting common share and for March through September 2010, the dividend was increased to \$0.08 per common share per month (\$9,007,666 in aggregate). For the nine months ended September 30, 2009, dividends of \$6,662,782 were declared.

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Three and nine months ended September 30, 2010

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## 8. Stock-based compensation:

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 RSUs and 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 905,743 and issued 384,400 RSUs to management and Directors as of September 30, 2010. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (290,650) do not vest until the end of the three-year period and are subject to certain performance conditions relating to operating cash flow per share. The stock-based compensation expense relating to the RSU Plan is based on the issue price at the time of grant and management's estimate of the future performance conditions and will be amortized over the thirty-six month vesting period. Payments in lieu of dividends on the unvested RSUs are made monthly in accordance with the Corporation's dividend policy. Payments to management are split evenly between cash and common shares.

For the three months ended September 30, 2010, the Corporation incurred stock-based compensation expenses of \$501,878 which includes: \$384,400 (non-cash expense) for the third quarter 2010 portion of the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan; \$57,378 for payments to staff and directors in lieu of dividends under the RSU Plan; \$35,100 (non-cash expense) for shares issued in lieu of dividends under the RSU Plan; and \$25,000 (non-cash expense) for the third quarter 2010 amortization of the fair value of outstanding stock options. The Corporation has reserved 391,314 and issued 319,150 options (219,150 in 2008 and 100,000 in 2009) that vest over a four-year period and expire in five years. The fair value of the warrants (note 6) and options were calculated using a Black-Scholes model with the following assumptions:

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	Warrants 2009	Options 2009
Dividend yield	12%	12%
Expected volatility	53%	56%
Risk free rate of return	2.46%	2.74%
Expected life	2 years	5 years
Weighted average value per option/warrant	\$ 0.7348	\$ 1.3430

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# ALARIS ROYALTY CORP.

Notes to Unaudited Consolidated Financial Statements, page 8

Three and nine months ended September 30, 2010

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## 9. Financial risk management

A review of the Corporation's financial risk management can be found in the audited financial statements for the years ending December 31, 2009 and 2008.

### (a) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Corporation's reputation. The Corporation has the following financial instruments that mature as follows:

	Total	0-6 Months	6 mo – 1 yr	1 – 2 years	3 – 4 years
Accounts payable and accrued liabilities	543,090	543,090	0	0	0
Dividends payable	1,106,085	1,106,085	0	0	0
Bank indebtedness	19,700,000	1,641,667	3,283,333	13,133,333	1,641,667
Subordinated debt	1,200,000	1,200,000	0	0	0
<b>Total</b>	<b>22,549,175</b>	<b>4,490,842</b>	<b>3,283,333</b>	<b>13,133,333</b>	<b>1,641,667</b>

### (b) Fair value of financial instruments:

The Corporation's financial instruments as at September 30, 2010 and December 31, 2009 include cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, bank indebtedness and subordinated debt. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and approximate their carrying amounts due to their short-terms to maturity.

Bank indebtedness bears interest at a floating market rate and accordingly the fair market value approximates the carrying value. The subordinated debt is due to the Corporation's largest shareholder and, accordingly, the fair value is not readily determinable. The fair values of the available for sale investments are not readily determinable with sufficient reliability due to the lack of similar instruments in the market.

### (c) Debt covenants:

The Corporation manages capital by monitoring certain debt covenants set out in its credit facility. The Corporation has a maximum senior debt to contracted EBITDA of 1.5:1 (1.21:1 at September 30, 2010). EBITDA is defined as net income before interest expense, income taxes, depreciation and amortization. Additionally, a minimum tangible net worth requirement of \$124,045,600 is in place (\$129,437,283 at September 30, 2010). Tangible net worth is defined as subordinated debt plus shareholders equity. In order to acquire more royalties, the Corporation needs to access public equity markets to fund the acquisitions and manage the business within the bank covenants. The Corporation was in compliance with all debt covenants at September 30, 2010.

# ALARIS ROYALTY CORP.

Notes to Unaudited Consolidated Financial Statements, page 9

Three and nine months ended September 30, 2010

## 10. Income taxes

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

	Nine months ended September 30, 2010	Year ended December 31, 2009
Earnings before income taxes	\$ 8,024,595	\$ 11,601,281
Combined federal and provincial statutory income tax rate	28.00%	29.00%
Expected income tax provision	\$ 2,246,887	\$ 3,364,371
Non-deductible expense	348,196	498,997
Decrease in valuation allowance	-	(4,963,992)
Loss carryforwards expired	-	2,780,171
Drawdown of deferred credit	(2,237,448)	(3,836,895)
Net impact of investment tax credits	-	(3,407,676)
Rate changes and other	(218,680)	(338,487)
	\$ 138,955	\$ (5,903,511)

The valuation allowance was decreased as a result of the extension of expiry dates for investment tax credits in 2009.

The future income taxes as presented on the balance sheet are comprised of:

	Nine months ended September 30, 2010	Year ended December 31, 2009
Current assets	\$ 3,201,429	\$ 2,996,000
Long-term assets	22,812,505	22,248,900
Current liabilities	(47,808)	(47,808)
Long-term liabilities	(4,166,813)	(1,347,755)
	\$ 21,799,313	\$ 23,849,337

# ALARIS ROYALTY CORP.

Notes to Unaudited Consolidated Financial Statements, page 10

Three and nine months ended September 30, 2010

## 10. Income Taxes (continued):

The income tax effect of the temporary differences that give rise to the Corporation's future income tax assets and liabilities are as follows:

	Nine months ended September 30, 2010	Year ended December 31, 2009
Future income tax assets (liabilities):		
Non-capital losses and unclaimed scientific research and development expenses ("SRED")	\$ 24,875,346	\$ 27,040,431
Equipment	96,961	93,943
Share issue costs	1,041,619	962,065
Intangible assets	(1,457,114)	(1,489,600)
Investment tax credits	(2,757,502)	(2,757,502)
	<u>\$ 21,799,313</u>	<u>\$ 23,849,337</u>

As at September 30, 2010, the Corporation has non-capital losses available to reduce income tax in future years that expire from time to time as follows:

2012	\$ 15,579,858
2013	21,537,689
2024 and later	3,381,931
	<u>\$ 40,499,478</u>

As at September 30, 2010, the Corporation has unused federal income tax credits which expire from time to time as follows (based on future earnings estimates, a portion of the tax credits will not be recognized):

2015	\$ 50,210
2016	57,344
2017	133,712
2018	150,798
2019	1,623,342
2020	1,935,046
2021	1,295,097
2022	3,296,237
2023	1,840,597
2024	647,624
	<u>\$11,030,007</u>

# ALARIS ROYALTY CORP.

Notes to Unaudited Consolidated Financial Statements, page 11

Three and nine months ended September 30, 2010

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## 10. Income Taxes (continued):

As at September 30, 2010, the Corporation has a deferred credit of \$21,443,570:

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Deferred credit on 2008 restructuring	\$ 30,562,949
Drawdown in prior years	(6,901,931)
Drawdown in current period	(2,237,448)
	<hr/>
	\$ 21,443,570

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The Corporation has research and development expenditures not deducted at the end of the year, to be deducted over an indefinite period for an amount of \$58,131,473.

## 11. Related party transactions:

The Corporation has a \$1.2 million demand loan owing to a company controlled by the Corporation's largest shareholder. On May 18, 2010, the Corporation repaid \$5.3 million from proceeds relating to new equity. For the three and nine months ended September 30, 2010, the Corporation paid interest of \$39,321 and \$377,178 respectively to this company (three and nine months ended September 30, 2009 - \$212,986 and \$632,014 respectively).

## 12. Commitments:

On March 25, 2009, the Corporation signed a seven-year lease at a new location that was to commence July 1, 2009 ending June 30, 2016. The commencement date was delayed until after December 1, 2009.

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2010	\$ 39,817
2011	159,260
2012	159,851
2013	166,354
2014	166,354
2015	166,354
2016	152,491
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	\$ 1,010,481

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