



Unaudited Condensed Consolidated Interim Financial
Statements of

ALARIS ROYALTY CORP.

For the three and six months ended June 30, 2011

Alaris Royalty Corp.

Condensed consolidated statement of financial position (unaudited)

		June 30	December 31
	Note	2011	2010
Assets			
Cash and cash equivalents		\$ 41,162,460	\$1,816,868
Prepayments		57,008	343,184
Trade and other receivables		39,504	688,514
Current Assets		41,258,972	2,848,566
Equipment	7	67,013	69,671
Intangible assets	5	6,706,606	12,896,916
Preferred LP Units	5	130,608,132	182,907,000
Investment tax credit receivable	6	10,922,392	10,922,393
Deferred income taxes	6	12,081,021	18,158,192
Non-current assets		160,385,164	224,954,172
Total Assets		\$201,644,136	\$227,802,738
Liabilities			
Accounts payable and accrued liabilities		\$ 1,881,574	1,421,992
Dividends payable		1,437,901	1,396,262
Current Liabilities		3,319,475	2,818,254
Loans and borrowings	9	-	29,200,000
Non-current liabilities		-	29,200,000
Total Liabilities		3,319,475	32,018,254
Equity			
Share capital	8	\$161,466,495	157,402,328
Warrants	8	49,377	405,306
Contributed Surplus		4,132,150	3,174,831
Accumulated other comprehensive income		3,332,034	22,350,157
Retained Earnings		29,344,605	12,451,862
Total Equity		\$198,324,661	\$195,784,484
Total Liabilities and Equity		\$201,644,136	\$227,802,738

Alaris Royalty Corp.

Condensed consolidated statement of comprehensive income (unaudited)

	Note	Three months ended June 30		Six months ended June 30	
		2011	2010	2011	2010
Revenues					
Royalties and distributions	5	\$ 5,235,584	3,895,625	10,870,903	\$8,088,487
Interest and other		13,778	1,030	13,778	2,190
Gain on reduction of partner interests		23,815,973	-	23,815,973	-
Gain on sale of intangible assets		3,891,560	-	3,891,560	-
Total Revenue		32,956,895	3,896,655	38,592,214	8,090,677
Salaries and benefits		1,212,670	205,614	1,436,007	423,826
Corporate and office		191,012	124,887	468,151	335,955
Legal and accounting fees		130,518	99,033	243,568	202,771
Non-cash stock-based compensation	10	518,353	456,781	1,031,418	905,929
Depreciation and amortization		42,459	47,256	89,631	94,386
Subtotal		2,095,012	933,571	3,268,775	1,962,867
Earnings from operations		30,861,883	2,963,084	35,323,439	6,127,810
Finance cost		423,994	385,341	843,393	868,991
Earnings before taxes		30,437,889	2,577,743	34,480,046	5,258,818
Deferred income tax expense	6	7,727,380	757,261	8,844,033	1,539,668
Earnings		\$ 22,710,509	1,820,482	25,636,013	\$3,719,150
Other comprehensive income					
Net change in fair value of available-for-sale financial assets	5	544,429	3,145,466	2,280,975	3,145,466
Tax impact of change in fair value		(68,054)	(393,183)	(285,122)	(393,183)
Realized gain on reduction of partnership interest		(24,015,973)	-	(24,015,973)	-
Tax impact of realized gain		3,001,997	-	3,001,997	-
Other comprehensive income for the period, net of income tax		(20,537,601)	2,752,283	(19,018,123)	2,752,283
Total comprehensive income for the period		\$2,172,908	\$ 4,572,765	\$ 6,617,890	\$ 6,471,433
Earnings per share					
Basic earnings per share		\$1.34	\$0.14	\$1.52	\$0.31
Fully diluted earnings per share		\$1.30	\$0.14	\$1.47	\$0.29
Weighted average shares outstanding					
Basic		16,913,163	12,684,074	16,863,856	12,135,093
Fully Diluted		17,492,075	13,231,666	17,419,316	12,676,376

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the six months ended June 30, 2010

	Notes	Share capital	Warrants	Contributed surplus	Accumulated OCI	Retained Earnings	Total Equity
Balance at January 1, 2010		\$111,663,148	\$845,000	\$1,869,901	\$9,766,188	\$17,910,817	\$142,055,054
Total comprehensive income for the period							
Earnings for the period		-	-	-	-	3,719,150	3,719,150
Other comprehensive income		-	-	-	-	-	-
Net change in fair value of available-for-sale financial assets	6	-	-	-	3,145,466	-	3,145,466
Tax impact of fair value adjustment					(393,183)		(393,183)
Non-cash stock based compensation	10	-	-	838,729	-	-	838,729
Total other comprehensive income		-	-	838,729	2,752,283	-	3,591,012
Total comprehensive income for the period		\$-	\$-	\$838,729	\$2,752,283	\$3,719,150	\$7,310,162
Transactions with shareholders of the Company, recognized directly in equity							
Warrants exercised in the period	8	\$3,282,375	\$-	\$-	\$-	\$-	\$3,282,375
Fair value of warrants exercised in the period	8	321,585	(321,585)	-	-	-	-
Dividends to shareholders	8	-	-	-	-	(5,695,091)	(5,695,091)
Payments in lieu of dividends on RSUs	10	-	-	-	-	(107,591)	(107,591)
Shares issued in lieu of dividends on RSUs	10	67,200	-	-	-	-	67,200
Shares issued in the period		16,560,000	-	-	-	-	16,560,000
Share issue costs, net of tax		(920,280)	-	-	-	-	(920,280)
Total transactions with Shareholders of the Company		19,310,880	(321,585)	-	-	(5,802,682)	13,186,613
Balance at June 30, 2010		\$130,974,028	\$523,415	\$2,708,630	\$12,518,471	\$15,827,285	\$162,551,829

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the six months ended June 30, 2011

	Notes	Share capital	Warrants	Contributed surplus	Accumulated OCI	Retained Earnings	Total Equity
Balance at January 1, 2011		\$157,402,328	\$405,306	\$3,174,831	\$22,350,157	\$12,451,862	\$195,784,484
Total comprehensive income for the period							
Earnings for the period		-	-	-	-	25,636,013	25,636,013
Other comprehensive income							
Net change in fair value of available-for-sale financial assets	6	-	-	-	2,280,975	-	2,280,975
Tax impact of fair value adjustment					(285,122)		(285,122)
Non-cash stock based compensation	10	-	-	957,319	-	-	957,319
Tax value of share issue costs	8	1,138	-	-	-	-	1,138
Realized gain on reduction of partnership interest		-	-	-	(24,015,973)	-	(24,015,973)
Tax impact of realized gain		-	-	-	3,001,997	-	3,001,997
Total other comprehensive income		1,138	-	957,319	(19,018,123)	-	(18,059,666)
Total comprehensive income for the period		\$1,138	\$-	\$957,319	\$(19,018,123)	\$25,636,013	\$7,576,347
Transactions with shareholders of the Company, recognized directly in equity							
Contributions by and distributions to shareholders of the Company							
Warrants exercised in the period	8	\$3,633,000	\$-	\$-	\$-	\$-	\$3,633,000
Fair value of warrants exercised in the period	8	355,929	(355,929)	-	-	-	-
Dividends to shareholders	8	-	-	-	-	(8,621,337)	(8,621,337)
Payments in lieu of dividends on RSUs	10	-	-	-	-	(121,933)	(121,933)
Shares issued in lieu of dividends on RSUs	10	74,100	-	-	-	-	74,100
Total transactions with Shareholders of the Company		4,063,029	(355,929)	-	-	(8,743,270)	(5,036,170)
Balance at June 30, 2011		\$161,466,495	\$49,377	\$4,132,150	\$3,332,034	\$29,344,605	\$198,324,661

Alaris Royalty Corp.

Condensed consolidated statement of cash flows (unaudited)

For the six months ended June 30

	Note	2011	2010
Cash flows from operating activities			
Earnings from the period		\$25,636,013	\$3,719,150
Adjustments for:			
Finance costs		843,393	868,992
Deferred income taxes	6	8,844,033	1,539,668
Depreciation and amortization	7	89,630	94,386
Gain on intangible asset sale and reduction of partnership interest		(27,707,533)	-
Non-cash stock based compensation	10	1,031,418	905,929
		<u>8,736,954</u>	<u>7,128,125</u>
Change in:			
-trade and other receivables		649,010	(293,322)
-prepayments		286,176	(128,642)
-trade and other payables		460,723	(501,484)
		<u>10,132,863</u>	<u>6,204,677</u>
Cash generated from operating activities		<u>10,132,863</u>	<u>6,204,677</u>
Interest paid		(843,393)	(868,992)
Net cash from operating activities		<u>\$9,289,470</u>	<u>5,335,685</u>
Cash flows from investing activities			
Acquisition of equipment		(5,104)	(3,360)
Acquisition/disposition of Preferred LP Units		(670,145)	(13,244,533)
Proceeds from reduction in Preferred LP Units		65,000,000	-
Net cash from/(used in) investing activities		<u>\$64,324,751</u>	<u>\$(13,247,893)</u>
Cash flows from financing activities			
New share capital	8	-	15,313,346
Proceeds from exercise of warrants	8	3,633,000	3,282,375
Repayment of Senior debt	9	(29,200,000)	(1,900,000)
Repayment of Subordinated debt	9	-	(5,300,000)
Dividends paid	8	(8,579,697)	(5,397,645)
Payments in lieu of dividends on RSUs	10	(121,932)	(107,591)
Net cash used in financing activities		<u>(\$34,268,629)</u>	<u>\$(5,890,485)</u>
Net increase/(decrease) in cash and cash equivalents		<u>39,345,592</u>	<u>(2,021,723)</u>
Cash and cash equivalents, Beginning of period		1,816,868	3,826,000
Cash and cash equivalents, End of period		<u>\$41,162,460</u>	<u>\$1,804,277</u>

1. Reporting entity:

Alaris is a company domiciled in Canada. The condensed consolidated interim financial statements of the Company as at and for the three and six months ended June 30, 2011 comprises the Company and its subsidiaries (together referred to as the "Corporation"). The Corporation's operations are conducted through a partnership. The partnership's operations consist primarily of investments in private operating entities, typically in the form of preferred limited partnership interests or long-term license and royalty arrangements.

The consolidated financial statements of the Corporation as at and for the year ended December 31, 2010 were prepared under Canadian generally accepted accounting principles.

2. Statement of compliance:

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These are the Corporation's second IFRS condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in note 14. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of the transition reported under Canadian GAAP to those reported for those periods and at the date of transition under IFRS.

These condensed consolidated interim financial statements were approved by the Board of Directors on July 27, 2011.

(b) Basis of measurement

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

- Available-for-sale financial assets (Preferred LP units) are measured at fair value

(c) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars which is the Corporation's functional currency.

(d) Use of estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management applying the Corporation's accounting policies and the key sources of

2. Statement of compliance (continued)

estimation uncertainty is expected to be the same as those to be applied in the first annual IFRS financial statements.

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

Key assumptions used in discounted cash flow projections

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

Utilization of tax losses

Management makes estimates on future taxable income that generates the calculations for the deferred income tax expense, assets and liabilities.

3. Significant accounting policies:

The accounting policies followed by the Corporation for the three and six months ended June 30, 2011 are referenced in the March 31, 2011 financial statements.

4. Financial risk management

Overview

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

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

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

Risk Management Framework

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

The Corporation's risk management policies are established to identify and analyse the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market

4. Financial risk management (continued)

conditions and the Corporation's activities. The Corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

Credit Risk and Other Price Risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investments. Concentrations of credit risk exist when a significant proportion of the Corporation's assets are invested in a small number of individually significant investments, and investments with similar characteristics and/or subject to similar economic, political and other conditions that may prevail. The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Corporation's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. Approximately 53 percent (year ended December 31, 2010 - 68 percent) of the Corporation's revenue in the six months ended June 30, 2011 is attributable to one Private Company Partner.

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

The Corporation is exposed to credit related losses on current and future amounts receivable pursuant to investment agreements. In the event of non-performance by Partners, future royalty and distribution revenue from the investments could be reduced, resulting in impairment of investment values. The investment agreements provide that payments are receivable monthly no later than the last day of the month. As at June 30, 2011, all amounts receivable for the three and six months ended June 30, 2011 had been received.

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing in less than 90 days. The Corporation manages the credit exposure related to short-term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper. The Corporation held cash and cash equivalents of \$41,162,460 at June 30, 2011 (December 31, 2010 - \$1,816,868), which represents its maximum credit exposure on these assets.

Alaris Royalty Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Three and six months ended June 30, 2011

4. Financial risk management (continued)

The carrying amount of investments, accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Corporation does not have an allowance for doubtful accounts as at June 30, 2011 and did not provide for any doubtful accounts nor was it required to write-off any receivables or investments during the three and six months ended June 30, 2011.

Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

Typically the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. In addition, the Corporation maintains a \$30.1 million, 364 day revolving credit facility, and has no balance drawn at June 30, 2011 (\$29.2 million at December 31, 2010).

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	\$ 1,881,574	\$ 1,881,574	\$ -	\$ -	\$ -
Dividends payable	1,437,901	1,437,901	-	-	-
Bank indebtedness	-	-	-	-	-
Total \$	\$ 3,319,475	\$ 3,319,475	\$ -	\$ -	\$ -

Market Risk

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

Foreign currency exchange rate risk and commodity price risk

The Corporation does not have any direct exposure to foreign currency exchange rate risk or commodity price risk. The Corporation had no forward exchange rate contracts or commodity price contracts in place as at or during the three and six months ended June 30, 2011.

4. Financial risk management (continued)**Interest Rate Risk**

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate fluctuations on its bank debt that bears a floating rate of interest. As at June 30, 2011, if interest rates had been 1% lower with all other variables held constant, net income for the period would have been approximately \$130,000 higher, due to lower interest expense. An equal and opposite impact would have occurred to net income had interest rates been 1% higher.

The Corporation had no interest rate swap or financial contracts in place as at or during the three and six months ended June 30, 2011.

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital, a 364 day revolving credit facility and retained earnings. The Board of Directors monitors the return on capital as well as the level of dividends to common shareholders.

The Corporation manages capital by monitoring certain debt covenants set out in its credit facility. The Corporation has a maximum senior debt to contracted EBITDA of 1.7:1 (Nil outstanding balance at June 30, 2011). EBITDA is defined as net income before interest expense, income taxes, depreciation and amortization and non-cash stock-based compensation expenses. Additionally, a minimum tangible net worth requirement of \$152.2 million is in place (\$198.3 million at June 30, 2011). Tangible net worth is defined as subordinated debt plus shareholders equity. The Corporation was in compliance with all debt covenants at June 30, 2011.

In order to acquire more distributions and royalties, the Corporation can access its credit facility and above that needs to access public equity markets to fund the acquisitions and manage the business within the bank covenants. There were no changes in the Corporation's approach to capital management during the three and six months ended June 30, 2011.

Fair Value of Financial Instruments

The Corporation's financial instruments as at June 30 2011 and December 31, 2010 include cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, and bank indebtedness. 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 fair values of the available for sale investments are estimated using an approach described in note 5.

Alaris Royalty Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Three and six months ended June 30, 2011

5. Investments

Available for Sale Financial Assets:

	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
June 30, 2011				
LifeMark Health	\$ 36,450,000	\$ 499,894	\$ 36,949,894	\$ 65,500,000
Lower Mainland Steel	51,000,000	333,280	51,333,280	26,590,000
Solowave	32,500,000	511,253	33,011,253	33,012,000
KMH	5,000,000	244,534	5,244,534	5,245,000
Capitalized Costs	-	261,132	261,132	261,132
	<u>\$ 124,950,000</u>	<u>\$ 1,850,093</u>	<u>\$ 126,800,093</u>	<u>\$ 130,608,132</u>
December 31, 2010				
LifeMark Health	\$ 67,500,000	\$ 291,362	\$ 67,791,362	\$ 120,000,000
Lower Mainland Steel	51,000,000	333,280	51,333,280	24,667,000
Solowave	32,500,000	494,787	32,994,787	32,995,000
KMH	5,000,000	244,534	5,244,534	5,245,000
	<u>\$ 156,000,000</u>	<u>\$ 1,363,963</u>	<u>\$ 157,363,963</u>	<u>\$ 182,907,000</u>

Assumptions used in fair value calculations:

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

- A going concern value was calculated by calculating the discounted cash flow of the future expected distributions. Key assumptions used include the discount rate used in the calculation. For each individual Partner, the Corporation considered a number of different discount rate factors including what industry they operated in, the size of the company, the health of the balance sheet and the ability of the historical earnings to cover the future distributions. This was supported by the historical yield of the original investment, current investing yields, and the current yield of Alaris' publicly traded shares and of other similar public companies.
- A redemption or retraction value was calculated using the formula specified in each of the Partnership agreements alongside an assessment of the likelihood of a redemption of the Preferred Units.
- A liquidation value was calculated using the formula specified in each of the Partnership agreements while considering an estimate of the current value of the private company to determine if there would be sufficient value to cover the liquidation amount.

From this analysis, management of the Corporation determined the fair value of the Preferred LP Units for each individual Partner.

Alaris Royalty Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Three and six months ended June 30, 2011

5. Investments (continued)

Intangible Assets:

	Acquisition Cost	Capitalized Cost	Accumulated Amortization	Net Cost
June 30, 2011				
End of the Roll	\$ 7,200,000	\$ 74,920	\$ (568,314)	\$ 6,706,606
MEDlchair	-	-	-	-
	\$ 7,200,000	74,920	\$ (568,314)	\$ 6,706,606
December 31, 2010				
End of the Roll	\$ 7,200,000	\$ 74,920	\$ (522,845)	\$ 6,752,075
MEDlchair	6,500,000	83,758	(438,917)	6,144,841
	\$ 13,700,000	\$ 158,678	\$ (961,762)	\$ 12,896,916

Royalties and distributions:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
LifeMark Health	\$ 2,783,398	\$ 2,775,431	\$ 5,849,776	\$ 5,437,307
Solowave	1,250,000	-	2,500,000	-
LMS	425,891	385,814	833,573	1,225,814
End of the Roll	322,364	320,951	712,594	709,471
MEDlchair	228,689	287,040	530,968	589,506
KMH	225,243	126,389	443,993	126,389
	\$ 5,235,585	\$ 3,895,625	\$ 10,870,904	\$ 8,088,487

I – Preferred LP Units

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

At the beginning of 2011, the Corporation held 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"). On June 9, 2011, the Corporation entered into a plan of arrangement that resulted in a return of capital, the elimination of the Class A and B units, and a reduction of the annual distributions to \$6.75 million for the twelve months following the close of the transaction. Going forward, Alaris holds 6,750,000 Preferred Units and will receive an annual preferred distribution, in priority to distributions on LifeMark Health's other partnership units, from LifeMark Health of \$6.75 million in the twelve months following close. This represents approximately 50% of the pre-Transaction expected 2011 distribution to Alaris from the LifeMark Group. The post-Transaction annual Distribution has a guaranteed increase of 4% per year thereafter and distributions are receivable monthly.

5. Investments (continued)

The LifeMark Group became a subsidiary of Centric Health Corporation ("Centric"), who acquired all of the issued and outstanding residual units of LifeMark Health and all of the intellectual property of Life Mark Health and MEDiChair, pursuant to the Transaction. The Transaction was completed by way of a plan of arrangement under the *Business Corporations Act* (Alberta). After the Transaction is completed, Alaris and Centric will be the only limited partners in LifeMark Health.

Centric has the option at any time after June 9, 2013 to repurchase all (but not less than all) of the LifeMark Preferred Units for \$65.5 million. Starting on June 9, 2013 the repurchase price will increase 4% per year.

(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 1st and April 1st) 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.

(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.

5. Investments (continued)

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

The Corporation holds 3,250,000 Preferred partnership units ("Solowave Units") in Solowave Design Limited Partnership (the "Solowave Investment") acquired on December 16, 2010 for an aggregate acquisition cost of \$32.5 million.

Pursuant to the Solowave partnership agreement (the "Solowave Partnership Agreement") dated December 16, 2010, the Solowave Units entitle the Corporation to receive an annual preferred distribution (the "Preferred Distribution") in priority to distributions on Solowave'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 Solowave's Same Customer Net Sales for the previous fiscal year. Distributions on the Solowave Units are receivable monthly.

Solowave has the option at any time after December 16, 2013 to repurchase all (but not less than all) of the Solowave Units at a pre-negotiated premium to the original purchase price.

II – Intangible Assets

(e) 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.

(f) 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 was subsequently licensed to MEDlchair for a term (the "Term") of 80 years pursuant to a license agreement (the "MEDlchair License Agreement") in 2005 in consideration of an annual royalty (the "Royalty"). From September 12, 2005 through June 9, 2011, the Corporation collected \$6.33 million in royalties from MEDlchair.

On June 9, 2011, the Corporation sold all of the MEDlchair intellectual property for \$10,000,000, a 54% premium to its original cost.

Alaris Royalty Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
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6. Income tax expense:

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The Corporation's consolidated effective tax rate for the six months ended June 30, 2011 was 26.5% (six months ended June 30, 2010 – 28.0%). The change in effective tax rate is in line with the Canadian government's gradual reduction in the corporate income tax rate.

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:

	Six months ended June 30	
	2011	2010
Earnings before income taxes	\$ 34,480,046	\$ 5,258,818
Combined federal and provincial statutory income tax rate	26.5%	28.0%
Expected income tax provision	\$ 9,137,212	\$ 1,472,469
Non-deductible expense	282,628	236,758
Rate changes and other	(575,807)	(169,559)
	\$ 8,844,033	\$ 1,539,668

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

	Six months ended, June 30, 2011	Year ended December 31, 2010
Deferred income tax assets (liabilities):		
Non-capital losses and unclaimed scientific research and development expenses ("SRED")	\$ 16,213,467	\$ 24,124,260
Equipment	92,168	90,527
Share issue costs	1,106,082	1,313,175
Intangible assets	(1,425,806)	(1,446,292)
Investment tax credits	(2,730,598)	(2,730,598)
Preferred partnership units	(1,174,292)	(3,192,880)
	\$ 12,081,021	\$ 18,158,192

As at June 30, 2011, the Corporation has non-capital losses available to reduce income tax in future years that expire from time to time as follows:

2013	\$ 4,422,597
2014 and later	3,202,748
	\$ 7,625,345

Alaris Royalty Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Three and six months ended June 30, 2011

6. Income tax expense (continued):

As at June 30, 2011, the Corporation has unused federal income tax credits which expire from time to time as follows:

2017	\$	133,652
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
	\$	10,922,393

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.

7. Equipment:

Equipment consists of leasehold improvements, furniture and fixtures, and computer equipment. The amounts are net of accumulated depreciation of \$129,088 (December 31, 2010 - \$121,327). During the six months ended June 30, 2011, the Corporation acquired assets with a cost of \$5,104.

8. Share capital:

Issue of common shares

In the six months ended June 30, 2011, the Corporation issued 5,567 shares under the Restricted Share Unit ("RSU") Plan, and 484,400 as a result of the exercise of warrants. During the six months ended June 30, 2011, at the Annual General Meeting, shareholders approved conversion of 666,665 non-voting shares to voting shares.

The Corporation has authorized, issued and outstanding, 16,916,571 voting common shares.

The warrants are exercisable at \$7.50 at any time up to twenty-four (24) months from the date of their issue (October 22, 2009), subject to a mandatory exercise if, at the Corporation's option, 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.

Alaris Royalty Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Three and six months ended June 30, 2011

8. Share capital (continued):

Issued Common Shares	Number of Shares	Amount
Balance at December 31, 2009 (Voting shares)	10,799,098	\$ 103,663,148
Issued in lieu of dividends on restricted share units	14,191	138,050
Issued upon RSUs vesting to Directors	31,250	375,000
Warrants exercised in the period	598,400	4,488,000
Fair value of warrants exercised in the period	-	439,694
Issued by short form prospectus in May 2010	1,840,000	16,560,000
Short form prospectus costs in May 2010	-	(1,239,548)
Income tax benefit of share issue costs	-	326,373
Issued by short form prospectus in Dec 2010	2,477,000	26,008,500
Short form prospectus costs in Dec 2010	-	(1,839,035)
Income tax benefit of share issue costs	-	476,562
Tax rate reconciliation of share issue costs	-	5,584
Balance at December 31, 2010 (Voting shares)	15,759,939	\$ 149,402,328
Non-voting shares	666,665	8,000,000
Balance at December 31, 2010 (Voting, non-voting)	16,426,604	\$ 157,402,328
Issued in lieu of dividends on restricted share units	5,567	74,100
Warrants exercised in the period	484,400	3,633,000
Fair value of warrants exercised in the period	-	355,929
Non-voting shares converted to voting	(666,665)	-
Non-voting shares converted to voting	666,665	-
Adjustment of share issue costs	-	1,138
Balance at June 30, 2011 (Voting)	16,916,571	161,466,495
	Number of	Amount
	Warrants	
Issued Warrants		
Balance at December 31, 2009	1,150,000	\$ 845,000
Exercised during 2010	(598,400)	(439,694)
Balance at December 31, 2010	551,600	\$ 405,306
Exercised during the six months ended June 30, 2011	(484,400)	(355,929)
Balance at June 30, 2011	67,200	\$ 49,377

Dividends

The following dividends were declared and paid by the Corporation:

For each of the six months ending June 30, 2011, the Corporation declared a dividend of \$0.085 per voting and non-voting common share (\$8,621,337 in aggregate). For the six months ended June 30, 2010, dividends of \$5,695,091 were declared.

9. Debt:

The Corporation has a \$30,100,000 secured revolving credit facility with a syndicate of Canadian chartered banks. On June 10, 2011, the Corporation repaid the outstanding balance of \$26,200,000 out of proceeds from the sale of MEDiChair and the reduction of its interest in LifeMark Health. There was nothing drawn on the facility at June 30, 2011. Interest is payable at the lenders' prime rate plus 3.0% (6.5% at March 31, 2011). The term out date under the credit facility is December 31, 2011. If an extension is not received by December 31, 2011, the facility will be repaid in thirty-six equal monthly installments commencing January 31, 2012. There are financial covenants under this facility and at June 30, 2011, 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.

During 2010, the Corporation repaid in full a \$6,500,000 unsecured demand facility with a company controlled by its largest shareholder. Interest was payable at 13.00% per annum.

10. Share-based payments:

The Corporation has a Restricted Share Unit Plan ("RSU Plan") and a Stock Option Plan as approved by shareholders at a special shareholders meeting on July 31, 2008 that authorizes the Board of Directors to grant awards of 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 867,624 and issued 384,400 RSUs to management and Directors as of June 30, 2011. 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 June 30, 2011, the Corporation incurred stock-based compensation expenses of \$518,353 which includes: \$363,872 (non-cash expense) for the second quarter portion of the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan; \$37,050 (non-cash expense) for shares issued in the quarter in lieu of dividends under the RSU Plan; and \$117,431 (non-cash expense) for the second quarter amortization of the fair value of outstanding stock options. The Corporation has reserved 707,369 and issued 610,150 options that vest over a four-year period and expire in five years.

The options outstanding at June 30, 2011, have an exercise price in the range of \$7.27 to \$12.00 and a weighted average contractual life of 3.6 years (2010 – 3.6 years). No share options were exercised in 2010 or during the first six months of 2011. No share options were issued during the first six months of 2011.

Alaris Royalty Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Three and six months ended June 30, 2011

11. Related parties:

There were no related party transactions during the six months ended June 30, 2011. In 2010, the Corporation had a \$6.5 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 and on December 17, 2010, the remaining \$1.2 million was repaid. For the three months ended March 31, 2010, the Corporation paid interest of \$208,356 to this company.

12. Commitments:

In 2009, the Corporation signed a seven-year lease at a new location that commenced December 1, 2009, ending November 30, 2016. The Corporation's annual commitment under this lease are as follows:

2011	\$	79,630
2012		159,851
2013		166,354
2014		166,354
2015		166,354
2016		152,491
	\$	891,036

13. Subsequent event:

On July 6, 2011, the Corporation added a new Partner, Killick Aerospace ("Killick"). The Corporation invested \$27.25 million in exchange for an annual distribution of \$4.3 million, a 15.8% yield in the first year of the partnership. Killick Aerospace is a world class leader in the global aircraft maintenance, repair and overhaul industry. The preferred distribution, denominated in Canadian dollars, will be adjusted annually based on the Partnership's change in gross revenues, subject to a maximum annual increase or decrease of 4%.

14. Explanation of transition to IFRS:

As stated in note 1, these are the Corporation's second consolidated interim financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the interim financial statements for the three and six months ended June 30, 2011, the comparative information presented in these interim financial statements for both the three and six months ended June 30, 2010 and year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Corporation's date of transition).

In preparing its opening IFRS statement of financial position, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from previous GAAP to IFRS has affected the Corporation's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Alaris Royalty Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
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Reconciliation of equity

		Previous GAAP	Effect of Transition To IFRSs	IFRSs
	Note	30 June 2010		
Assets				
Cash and cash equivalents		1,804,277	-	1,804,277
Prepayments		232,114	-	232,114
Trade and other receivables		295,792	-	295,792
Current tax assets	d	3,141,429	(3,141,429)	-
Current assets		5,473,612	(3,141,429)	2,332,183
Equipment		70,068	-	70,068
Intangible assets		12,983,531	-	12,983,531
Preferred LP Units	c	124,369,176	14,306,824	138,676,000
Investment tax receivable		11,030,007	-	11,030,007
Deferred income taxes	d	23,720,065	(2,872,367)	20,847,698
Non-current Assets		172,172,847	11,434,457	183,607,304
Total assets		177,646,459	8,293,028	185,939,487
Liabilities				
Loans and borrowings		16,416,667	-	16,416,667
Deferred credit	b	22,215,040	(22,215,040)	-
Deferred income taxes		4,177,635	(4,177,635)	-
Non-current liabilities		42,809,342	(26,392,675)	16,416,667
Current tax liabilities		47,808	(47,808)	-
Trade payables		437,599	-	437,599
Dividends payable		1,100,059	-	1,100,059
Loans and borrowings		4,233,333	-	4,233,333
Current liabilities		7,018,799	(47,808)	6,970,991
Total liabilities		49,828,141	(26,440,483)	23,387,658
Equity				
Share Capital		130,435,919	538,109	130,974,028
Warrants		523,415	-	523,415
Contributed Surplus	a	2,290,133	418,497	2,708,630
Accumulated other comprehensive income		-	12,518,471	12,518,471
Retained Earnings	d	(5,431,149)	21,258,434	15,827,285
Total equity		127,818,318	34,733,511	162,551,829
Total Liabilities and Equity		177,646,459	8,293,028	185,939,487

Alaris Royalty Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Three and six months ended June 30, 2011

Reconciliation of comprehensive income for the three months ended June 30, 2010

	Note	Previous GAAP	Effect of Transition To IFRSs	IFRSs
Revenues				
Royalties and distributions		3,895,625	-	3,895,625
Interest and other		1,030	-	1,030
Total Revenue		3,896,655	-	3,896,655
Salaries and benefits		205,614	-	205,614
Corporate and office		124,887	-	124,887
Legal and accounting fees		99,033	-	99,033
Stock-based compensation	A	57,378	(57,378)	-
Non-cash stock-based compensation	A	444,500	12,281	456,781
Depreciation and amortization		47,256	-	47,256
Subtotal		978,668	(45,097)	933,571
Earnings from operations		2,917,987	(45,097)	2,963,084
Finance cost		385,341	-	385,341
Earnings before taxes		2,532,646	45,097	2,577,743
Deferred income tax expense		54,665	702,596	757,261
Earnings		2,477,981	(657,499)	1,820,482
Other comprehensive income				
Net change in fair value of available-for-sale financial assets	C	-	3,145,466	3,145,466
Tax impact of fair value adjustment		-	(393,183)	(393,183)
Other comprehensive income for the period, net of income tax		-	2,752,283	2,752,283
Total comprehensive income for the period		2,477,981	2,094,784	4,572,765
Earnings per share				
Basic earnings per share		\$0.20	(\$0.05)	\$0.15
Diluted earnings per share		\$0.19	(\$0.05)	\$0.14

Alaris Royalty Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Three and six months ended June 30, 2011

Reconciliation of comprehensive income for the six months ended June 30, 2010

	Note	Previous GAAP	Effect of Transition To IFRSs	IFRSs
Revenues				
Royalties and distributions		8,088,487	-	8,088,487
Interest and other		2,190	-	2,190
Total Revenue		8,090,677	-	8,090,67
Salaries and benefits		423,826	-	423,826
Corporate and office		335,955	-	335,955
Legal and accounting fees		202,771	-	202,771
Stock-based compensation	A	107,591	(107,591)	-
Non-cash stock-based compensation	A	886,000	19,929	905,929
Depreciation and amortization		94,386	-	94,386
Subtotal		2,050,529	(87,662)	1,962,867
Earnings from operations		6,040,148	87,662	6,127,810
Finance cost		868,992	-	868,992
Earnings before taxes		5,171,156	87,662	5,258,818
Deferred income tax expense		93,692	1,445,976	1,539,668
Earnings		5,077,464	(1,358,314)	3,719,150
Other comprehensive income				
Net change in fair value of available-for-sale financial assets	C	-	3,145,466	3,145,466
Tax impact of fair value adjustment		-	(393,183)	(393,183)
Other comprehensive income for the period, net of income tax		-	2,752,283	2,752,283
Total comprehensive income for the period		5,077,464	1,393,969	6,471,433
Earnings per share				
Basic earnings per share		\$0.42	(\$0.11)	\$0.31
Diluted earnings per share		\$0.40	(\$0.11)	\$0.29

Alaris Royalty Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
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Notes to the reconciliations

- (a) Previously under GAAP, the Company accounted for share based payments by allocating expenses for each option issuance on a straight-line basis. Under IFRS, the related expense has been adjusted to reflect graded vesting of the outstanding share-based payments. Additionally, payments in lieu of dividends on RSUs were previously expenses under GAAP and now are recorded as dividends under IFRS. The impact arising from the change is summarized as follows:

	Three months ended 30 June 2010	Six months ended 30 June 2010
Consolidated statement of comprehensive income		
Non-cash stock based compensation expenses	12,281	19,929
Stock based compensation expenses	(57,738)	(107,591)
Adjust before income tax	<u>(45,457)</u>	<u>(87,662)</u>
Consolidated statement of financial position		
Contributed surplus		418,497
Related tax effect		(121,364)
Adjustment to retained earnings		<u>297,133</u>

- (b) Previously under GAAP, as a result of accounting for a reverse takeover in July 2008, the Company recorded a deferred credit on its Balance Sheet. IFRS does not recognize the existence of the deferred credit thus it is immediately written off against retained earnings. The impact arising from the change is summarized as follows:

	30 June 2010
Consolidated statement of financial position	
Deficit/Retained earnings	22,215,040
Adjustment to retained earnings	<u>22,215,040</u>

- (c) In accordance with IFRS, financial assets designated as available-for-sale have been recognized at fair value. Under GAAP, these assets were previously carried at cost. The impact arising from the change is summarized as follows:

	Three months ended 30 June 2010	Six months ended 30 June 2010
Consolidated statement of comprehensive income		
Net change in fair value of available for sale assets	3,145,466	3,145,466
Adjust before income tax	<u>3,145,466</u>	<u>3,145,466</u>
Consolidated statement of financial position		
Preferred LP Units	3,145,466	3,145,466
Related tax effect	(393,183)	(393,183)
Adjustment to retained earnings	<u>2,752,283</u>	<u>2,752,283</u>

- (d) In accordance with IFRS, no deferred income tax balances are shown as current on the consolidated statement of financial position.