



Unaudited Condensed Consolidated Interim Financial
Statements of

ALARIS ROYALTY CORP.

For the three and nine months ended September 30, 2011

Alaris Royalty Corp.

Condensed consolidated statement of financial position (unaudited)

	Note	September 30 2011	December 31 2010
Assets			
Cash and cash equivalents		\$ 12,298,443	\$1,816,868
Prepayments		57,008	343,184
Trade and other receivables		577,431	688,514
Current Assets		12,932,882	2,848,566
Equipment	7	65,163	69,671
Intangible assets	5	6,683,872	12,896,916
Preferred LP Units	5	158,372,169	182,907,000
Investment tax credit receivable	6	10,922,393	10,922,393
Deferred income taxes	6	11,027,646	18,158,192
Non-current assets		187,071,243	224,954,172
Total Assets		\$200,004,125	\$227,802,738
Liabilities			
Accounts payable and accrued liabilities		\$ 1,166,595	1,421,992
Dividends payable		1,440,202	1,396,262
Current Liabilities		2,606,797	2,818,254
Loans and borrowings	9	-	29,200,000
Non-current liabilities		-	29,200,000
Total Liabilities		2,606,797	32,018,254
Equity			
Share capital	8	\$161,705,326	157,402,328
Warrants	8	32,183	405,306
Contributed Surplus		4,655,032	3,174,831
Accumulated other comprehensive income		3,332,034	22,350,157
Retained Earnings		27,672,753	12,451,862
Total Equity		\$197,397,328	\$195,784,484
Total Liabilities and Equity		\$200,004,125	\$227,802,738

Alaris Royalty Corp.

Condensed consolidated statement of comprehensive income (unaudited)

	Note	Three months ended Sept 30		Nine months ended Sept 30	
		2011	2010	2011	2010
Revenues					
Royalties and distributions	5	\$ 4,842,028	4,165,073	15,712,932	\$12,253,560
Interest and other		24,847	-	38,624	2,190
Gain on reduction of partner interests		-	-	23,815,973	-
Gain on sale of intangible assets		-	-	3,891,560	-
Total Revenue		4,866,875	4,165,073	43,459,089	12,255,750
Salaries and benefits		225,402	204,787	1,661,409	628,612
Corporate and office		124,180	131,271	592,331	467,226
Legal and accounting fees		120,658	118,446	377,676	321,217
Non-cash stock-based compensation	10	559,932	461,414	1,591,350	1,367,343
Depreciation and amortization		26,713	47,611	116,343	141,997
Subtotal		1,056,885	963,529	4,339,109	2,926,395
Earnings from operations		3,809,990	3,201,544	39,119,980	9,329,355
Finance cost		35,374	307,642	878,767	1,176,634
Earnings before taxes		3,774,616	2,893,902	38,241,213	8,152,721
Deferred income tax expense	6	1,053,375	836,733	9,897,408	2,376,401
Earnings		\$2,721,000	2,057,169	28,343,805	\$5,776,320
Other comprehensive income					
Net change in fair value of available-for-sale financial assets	5	-	984,000	2,280,975	4,129,466
Tax impact of change in fair value		-	(123,000)	(285,122)	(516,183)
Realized gain on reduction of partnership interest		-	-	(24,015,973)	-
Tax impact of realized gain		-	-	3,001,997	-
Other comprehensive income for the period, net of income tax		-	861,000	(19,018,123)	3,613,283
Total comprehensive income for the period		\$ 2,721,000	\$ 2,918,169	\$ 9,325,682	\$ 9,389,603
Earnings per share					
Basic earnings per share		\$0.16	\$0.15	\$1.68	\$0.46
Fully diluted earnings per share		\$0.16	\$0.14	\$1.62	\$0.44
Weighted average shares outstanding					
Basic		16,931,101	13,790,008	16,886,518	12,692,793
Fully Diluted		17,540,118	14,358,519	17,443,434	13,261,304

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the nine months ended September 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		-	-	-	-	5,776,320	5,776,320
Other comprehensive income		-	-	-	-	-	-
Net change in fair value of available-for-sale financial assets	6	-	-	-	4,129,466	-	4,129,466
Tax impact of fair value adjustment					(516,183)		(516,183)
Total other comprehensive income		-	-	-	3,613,283	-	3,613,283
Total comprehensive income for the period		\$-	\$-	\$-	\$3,613,283	\$5,776,320	\$9,389,603
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	10	\$-	\$-	\$1,228,200	\$-	\$-	\$1,228,200
Warrants exercised in the period	8	3,820,500	-	-	-	-	3,820,500
Fair value of warrants exercised in the period	8	374,928	(374,928)	-	-	-	-
Dividends to shareholders	8	-	-	-	-	(9,007,661)	(9,007,661)
Payments in lieu of dividends on RSUs	10	-	-	-	-	(164,969)	(164,969)
Shares issued in lieu of dividends on RSUs	10	102,300	-	-	-	-	102,300
Shares issued in the period		16,560,000	-	-	-	-	16,560,000
Share issue costs, net of tax		(958,530)	-	-	-	-	(958,530)
Total transactions with Shareholders of the Company		19,899,198	(374,928)	1,228,200	-	(9,172,630)	11,579,840
Balance at September 30, 2010		\$131,562,346	\$470,072	\$3,098,101	\$13,379,471	\$14,514,507	\$163,024,497

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the nine months ended September 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		-	-	-	-	28,343,805	28,343,805
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)
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		-	-	-	(19,018,123)	-	(19,018,123)
Total comprehensive income for the period		\$-	\$-	\$-	\$(19,018,123)	\$28,343,805	\$9,325,682
Transactions with shareholders of the Company, recognized directly in equity							
Contributions by and distributions to shareholders of the Company							
Non-cash stock based compensation	10	-	-	1,480,201	-	-	1,480,201
Warrants exercised in the period	8	\$3,808,500	\$-	\$-	\$-	\$-	\$3,808,500
Fair value of warrants exercised in the period	8	373,123	(373,123)	-	-	-	-
Tax value of share issue costs	8	1,138	-	-	-	-	1,138
Dividends to shareholders	8	-	-	-	-	(12,940,016)	(12,940,016)
Options exercised in the period	8	9,087	-	-	-	-	9,087
Payments in lieu of dividends on RSUs	10	-	-	-	-	(182,898)	(182,898)
Shares issued in lieu of dividends on RSUs	10	111,150	-	-	-	-	111,150
Total transactions with Shareholders of the Company		4,302,998	(373,123)	1,480,201	-	(13,122,914)	(7,712,838)
Balance at September 30, 2011		\$161,705,326	\$32,183	\$4,655,032	\$3,332,034	\$27,672,753	\$197,397,328

Alaris Royalty Corp.

Condensed consolidated statement of cash flows (unaudited)

For the nine months ended September 30

	Note	2011	2010
Cash flows from operating activities			
Earnings from the period		\$28,343,805	\$5,776,320
Adjustments for:			
Finance costs		878,767	1,176,634
Deferred income taxes	6	9,897,408	2,376,401
Depreciation and amortization	7	116,343	141,997
Gain on intangible asset sale and reduction of partnership interest		(27,707,533)	-
Non-cash stock based compensation	10	1,591,350	1,367,343
		<u>13,120,140</u>	<u>10,838,695</u>
Change in:			
-trade and other receivables		111,083	(174,696)
-prepayments		286,176	(221,375)
-trade and other payables		(254,257)	(395,993)
		<u>13,263,142</u>	<u>10,046,631</u>
Cash generated from operating activities		<u>13,263,142</u>	<u>10,046,631</u>
Interest paid		(878,767)	(1,176,634)
Net cash from operating activities		<u>12,384,375</u>	<u>8,869,997</u>
Cash flows from investing activities			
Acquisition of equipment		(7,232)	(16,141)
Acquisition/disposition of Preferred LP Units		(28,434,180)	(13,289,437)
Proceeds from reduction in Preferred LP Units		65,000,000	-
Net cash used in investing activities		<u>\$36,558,588</u>	<u>\$(13,305,578)</u>
Cash flows from financing activities			
New share capital	8	-	15,275,096
Proceeds from exercise of warrants	8	3,808,500	3,820,500
Proceeds from exercise of options	8	9,087	-
Repayment of debt	9	(29,200,000)	(8,150,000)
Dividends paid	8	(12,896,077)	(8,704,188)
Payments in lieu of dividends on RSUs	10	(182,898)	(164,969)
Net cash used in financing activities		<u>(\$38,461,388)</u>	<u>\$2,076,439</u>
Net increase in cash and cash equivalents		<u>10,481,575</u>	<u>(2,359,142)</u>
Cash and cash equivalents, Beginning of period		<u>1,816,868</u>	<u>3,826,000</u>
Cash and cash equivalents, End of period		<u>\$12,298,443</u>	<u>\$1,466,858</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 nine months ended September 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 third 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 November 1, 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 set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-Corporation balances and transactions, and any unrealized income and expenses arising from intra-Corporation transactions, are eliminated in preparing the consolidated financial statements.

(b) Financial instruments

(i) Non-derivative financial assets

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables are comprised of cash and cash equivalents, and trade and other receivables.

3. Significant accounting policies (continued):

Cash and cash equivalents

Cash and cash equivalents are comprised of cash balances and banker's acceptances with original maturities of three months or less.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the previous categories. The Corporation's investments in preferred partnership units are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented in accumulated other comprehensive income in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

- (i) Share capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(j) Equipment

(i) Recognition and measurement

Equipment is measured at cost less accumulated depreciation.

(ii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of the asset. Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted if appropriate.

(k) Intangible assets

(i) Other intangible assets

Other intangible assets that are acquired by the Corporation have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Amortization

Amortization is based on the cost of an asset less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets from the date that they are available for use. Intangible assets held by the Corporation include intellectual property and are amortized over the 80 year life of the license and royalty agreement.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3. Significant accounting policies (continued):

(l) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying losses accumulated in accumulated other comprehensive income in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

(m) Share based payment transactions

The grant-date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(n) Finance costs

Finance costs comprise interest expense on borrowings, losses on disposal of available-for-sale financial assets, and fair value losses on financial assets at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset are recognized in profit or loss using the effective interest method.

3. Significant accounting policies (continued):

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they related to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(p) Earnings per Share

The Corporation presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise warrants, restricted share units and share options granted to employees.

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

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 48 percent (year ended December

4. Financial risk management (continued)

31, 2010 - 68 percent) of the Corporation's revenue in the nine months ended September 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 September 30, 2011, all amounts receivable for the three and nine months ended September 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 \$12,298,443 at September 30, 2011 (December 31, 2010 - \$1,816,868), which represents its maximum credit exposure on these assets.

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 September 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 nine months ended September 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 September 30, 2011 (\$29.2 million at December 31, 2010).

Alaris Royalty Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Three and nine months ended September 30, 2011

4. Financial risk management (continued)

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	\$ 1,166,595	\$ 1,166,595	\$ -	\$ -	\$ -
Dividends payable	1,440,202	1,440,202	-	-	-
Total \$	\$ 2,606,797	\$ 2,606,797	\$ -	\$ -	\$ -

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 nine months ended September 30, 2011.

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 September 30, 2011, if interest rates had been 1% lower with all other variables held constant, net income for the nine month 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 nine months ended September 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 September 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 \$152.4 million is in place (\$197.4 million at September

Alaris Royalty Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Three and nine months ended September 30, 2011

4. Financial risk management (continued)

30, 2011). Tangible net worth is defined as subordinated debt plus shareholders equity. The Corporation was in compliance with all debt covenants at September 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 nine months ended September 30, 2011.

Fair Value of Financial Instruments

The Corporation's financial instruments as at September 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.

5. Investments

Available for Sale Financial Assets:

	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
September 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	383,534	5,383,534	5,384,000
Killick	27,250,000	257,544	27,507,544	27,507,544
Capitalized Costs	-	378,625	378,625	378,625
	<u>\$ 152,200,000</u>	<u>\$ 2,364,130</u>	<u>\$ 154,582,650</u>	<u>\$ 158,372,169</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:

Alaris Royalty Corp.

Notes to Unaudited Condensed Interim Financial Statements
Three and nine months ended September 30, 2011

5. Investments (continued):

- (a) 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.
- (b) 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.
- (c) 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.

Intangible Assets:

	Acquisition Cost	Capitalized Cost	Accumulated Amortization	Net Cost
September 30, 2011				
End of the Roll	\$ 7,200,000	\$ 74,920	\$ (591,048)	\$ 6,683,872
	\$ 7,200,000	74,920	\$ (568,314)	\$ 6,683,872
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 Sept 30		Nine months ended Sept 30	
	2011	2010	2011	2010
LifeMark Health	\$ 1,687,500	\$ 2,938,142	\$ 7,537,276	\$ 8,375,449
Solowave	1,250,000	-	3,750,000	-
Killick	1,005,645	-	1,005,645	-
LMS	422,688	386,514	1,256,261	1,612,328
End of the Roll	257,708	323,057	970,302	1,032,528
KMH	218,487	218,750	662,480	345,139
MEDlchair	-	298,610	530,968	888,116
	\$ 4,842,028	\$ 4,165,073	\$ 15,712,932	\$ 12,253,560

Alaris Royalty Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
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5. Investments (continued):

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.

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.

5. 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.

Subsequent to September 30, 2011, the Corporation invested \$22.4 million into KMH by way of automatically convertible promissory notes (interest at 6.5% per annum) to help finance two acquisitions KMH was completing. The notes automatically convert into KMH Units on December 30, 2011 and the first year distributions on these new units will be \$3.3 million. The Corporation also provided a \$3.2 million demand note (interest at 8.5% per annum) to temporarily bridge mortgage financing on one of the acquisitions.

(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.

(e) Investment in Killick Aerospace, LP ("Killick"):

The Corporation holds 2,725,000 Preferred partnership units ("Killick Units") in Killick Aerospace Limited Partnership (the "Killick Investment") acquired on July 6, 2011 for an aggregate acquisition cost of \$27.25 million.

Pursuant to the Killick partnership agreement (the "Killick Partnership Agreement") dated July 6, 2011, the Killick Units entitle the Corporation to receive an annual preferred distribution (the "Preferred Distribution") in priority to distributions on Killick's other partnership units in an amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage

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Notes to Unaudited Condensed Consolidated Interim Financial Statements
Three and nine months ended September 30, 2011

5. Investments (continued)

increase or decrease in Killick's Gross Revenue for the previous fiscal year, subject to a maximum increase or decrease of 4%. Distributions on the Killick Units are receivable monthly.

Killick has the option at any time after July 6, 2014 to repurchase all (but not less than all) of the Killick 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 MEDiChair Ltd. ("MEDiChair"):

On September 12, 2005, the Corporation purchased certain intellectual property (the "MEDiChair IP") from MEDiChair for an aggregate purchase price of \$6.5 million (the "MEDiChair Investment") pursuant to an acquisition agreement (the "MEDiChair Acquisition Agreement") dated September 12, 2005. The MEDiChair IP was subsequently licensed to MEDiChair for a term (the "Term") of 80 years pursuant to a license agreement (the "MEDiChair 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 MEDiChair.

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

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 nine months ended September 30, 2011 was 26.5% (nine months ended September 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.

Alaris Royalty Corp.

Notes to Unaudited Condensed Interim Financial Statements
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6. Income tax expense (continued):

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 Sept 30	
	2011	2010
Earnings before income taxes	\$ 38,241,213	\$ 8,152,721
Combined federal and provincial statutory income tax rate	26.5%	28.0%
Expected income tax provision	\$ 10,133,921	\$ 2,282,762
Non-deductible expense	440,664	348,196
Rate changes and other	(677,177)	(254,557)
	\$ 9,897,408	\$ 2,376,401

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

	Nine months ended, Sept 30, 2011	Year ended December 31, 2010
Deferred income tax assets (liabilities):		
Non-capital losses and unclaimed scientific research and development expenses ("SRED")	\$ 15,160,093	\$ 24,124,260
Equipment	93,162	90,527
Share issue costs	1,102,535	1,313,175
Intangible assets	(1,420,122)	(1,446,292)
Investment tax credits	(2,730,598)	(2,730,598)
Preferred partnership units	(1,077,424)	(3,192,880)
	\$ 11,027,646	\$ 18,158,192

As at September 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	\$ 447,598
2014 and later	3,202,748
	\$ 3,650,346

Alaris Royalty Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Three and nine months ended September 30, 2011

6. Income tax expense (continued):

As at September 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 \$133,067 (December 31, 2010 - \$121,327). During the nine months ended September 30, 2011, the Corporation acquired assets with a cost of \$7,232.

8. Share capital:

Issue of common shares

In the nine months ended September 30, 2011, the Corporation issued 7,893 shares under the Restricted Share Unit ("RSU") Plan, and 507,800 as a result of the exercise of warrants. During the nine months ended September 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, 16,943,547 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
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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	7,893	111,150
Warrants exercised in the period	507,800	3,808,500
Fair value of warrants exercised in the period	-	373,123
Options exercised in the period	1,250	9,087
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 September 30, 2011 (Voting)	16,943,547	\$ 161,705,326

Issued Warrants	Number of Warrants	Amount
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 nine months ended September 30, 2011	(507,800)	(373,123)
Balance at September 30, 2011	43,800	\$ 32,183

Dividends

The following dividends were declared and paid by the Corporation:

For each of the nine months ending September 30, 2011, the Corporation declared a dividend of \$0.085 per voting and non-voting common share (\$12,940,016 in aggregate). For the nine months ended September 30, 2010, dividends of \$9,007,661 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 September 30, 2011. Interest is payable at the lenders' prime rate plus 3.0% (6.5% at September 30, 2011). The term out date under the credit facility is December 31, 2011. If monies are drawn, and 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 September 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 867,667 and issued 384,400 RSUs to management and Directors as of September 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 September 30, 2011, the Corporation incurred stock-based compensation expenses of \$559,932 which includes: \$367,871 (non-cash expense) for the third 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 \$155,011 (non-cash expense) for the third quarter amortization of the fair value of outstanding stock options. The Corporation has reserved 758,312 and issued 738,900 options that vest over a four-year period and expire in five years.

The options outstanding at September 30, 2011, have an exercise price in the range of \$7.27 to \$15.48, a weighted average exercise price of \$12.24 and a weighted average contractual life of 3.6 years (2010 – 4.0 years). No share options were exercised in 2010 and 1,250 were exercised during the first nine months of 2011. 130,000 share options were issued during the first nine months of 2011.

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11. Related parties:

There were no related party transactions during the nine months ended September 30, 2011. In 2010, the Corporation had a \$6.5 million demand loan owing to a company controlled by the Corporation's largest shareholder. The loan was repaid before the end of 2010. For the nine months ended September 30, 2010, the Corporation paid interest of \$377,178 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	\$	39,815
2012		159,851
2013		166,354
2014		166,354
2015		166,354
2016		152,491
	\$	851,219

13. Subsequent event:

On October 11, 2011, the Corporation invested \$22.4 million into KMH by way of automatically convertible promissory notes (interest at 6.5% per annum) to help finance two acquisitions KMH was completing. The notes automatically convert into KMH Units on December 30, 2011 and the first year distributions on these new units will be \$3.3 million. The Corporation also provided a \$3.2 million demand note (interest at 8.5% per annum) to temporarily bridge mortgage financing on one of the acquisitions.

14. Explanation of transition to IFRS:

As stated in note 1, these are the Corporation's third 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 nine months ended September 30, 2011, the comparative information presented in these interim financial statements for both the three and nine months ended September 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 30 Sept 2010	IFRSs
Assets				
Cash and cash equivalents		\$1,466,858	-	\$ 1,466,858
Prepayments		324,847	-	324,847
Trade and other receivables		177,166	-	177,166
Current tax assets	d	3,201,429	(3,201,429)	-
Current assets		5,170,300	(3,201,429)	1,968,871
Equipment		78,544	-	78,544
Intangible assets		12,940,223	-	12,940,223
Preferred LP Units	c	124,414,079	15,290,824	139,704,903
Investment tax receivable		11,030,007	-	11,030,007
Deferred income taxes	d	22,812,505	(2,924,545)	19,887,960
Non-current Assets		171,275,358	12,366,279	183,641,637
Total assets		\$176,445,658	9,164,850	\$185,610,508
Liabilities				
Loans and borrowings		\$ 14,775,000	-	\$ 14,775,000
Deferred credit	b	21,423,570	(21,423,570)	-
Deferred income taxes		4,166,813	(4,166,813)	-
Non-current liabilities		40,365,383	(25,590,383)	14,775,000
Current tax liabilities		47,808	(47,808)	-
Trade payables		543,090	-	543,090
Dividends payable		1,106,085	-	1,106,085
Loans and borrowings		4,925,000	-	4,925,000
Current liabilities		7,821,983	(47,808)	7,774,174
Total liabilities		\$48,187,366	(25,638,191)	\$22,549,175
Equity				
Share Capital		131,023,606	538,109	131,561,715
Warrants		470,702	-	470,702
Contributed Surplus	a	2,699,533	435,411	3,134,944
Accumulated other comprehensive income		-	13,379,471	13,379,471
Retained Earnings	d	(5,935,549)	20,450,050	14,514,501
Total equity		\$128,258,292	34,803,041	\$163,061,333
Total Liabilities and Equity		\$176,445,658	9,164,850	\$185,610,508

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Notes to Unaudited Condensed Consolidated Interim Financial Statements
Three and nine months ended September 30, 2011

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

	Note	Previous GAAP	Effect of Transition To IFRSs	IFRSs
Revenues				
Royalties and distributions		\$4,165,073	-	\$4,165,073
Interest and other		-	-	-
Total Revenue		4,165,073	-	4,165,073
Salaries and benefits		204,787	-	204,787
Corporate and office		131,271	-	131,271
Legal and accounting fees		118,446	-	118,446
Stock-based compensation	A	57,378	(57,378)	-
Non-cash stock-based compensation	A	444,500	16,914	461,414
Depreciation and amortization		47,611	-	47,611
Subtotal		1,003,993	(40,464)	963,529
Earnings from operations		3,161,080	40,464	3,201,544
Finance cost		307,642	-	307,642
Earnings before taxes		2,853,438	40,464	2,893,902
Deferred income tax expense		45,263	791,470	836,733
Earnings		\$2,808,175	(751,006)	\$2,057,169
Other comprehensive income				
Net change in fair value of available-for-sale financial assets	C	-	984,000	984,000
Tax impact of fair value adjustment		-	(123,000)	(123,000)
Other comprehensive income for the period, net of income tax		-	861,000	861,000
Total comprehensive income for the period		\$2,808,175	109,994	\$2,918,169
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
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Reconciliation of comprehensive income for the nine months ended September 30, 2010

	Note	Previous GAAP	Effect of Transition To IFRSs	IFRSs
Revenues				
Royalties and distributions		\$12,253,560	-	\$12,253,560
Interest and other		2,190	-	2,190
Total Revenue		12,255,750	-	12,255,750
Salaries and benefits		628,612	-	628,612
Corporate and office		467,226	-	467,226
Legal and accounting fees		321,217	-	321,217
Stock-based compensation	A	164,969	(164,969)	-
Non-cash stock-based compensation	A	1,330,500	36,843	1,367,343
Depreciation and amortization		141,997	-	141,997
Subtotal		3,054,521	(128,126)	2,926,395
Earnings from operations		9,201,229	128,126	9,329,355
Finance cost		1,176,634	-	1,176,634
Earnings before taxes		8,024,595	128,126	8,152,721
Deferred income tax expense		138,955	2,237,446	2,376,401
Earnings		\$7,885,640	(2,109,320)	\$5,776,320
Other comprehensive income				
Net change in fair value of available-for-sale financial assets	C	-	4,129,466	4,129,466
Tax impact of fair value adjustment		-	(516,183)	(516,183)
Other comprehensive income for the period, net of income tax		-	3,613,283	3,613,283
Total comprehensive income for the period		\$7,885,640	1,503,963	\$9,389,603
Earnings per share				
Basic earnings per share		\$0.62	(\$0.16)	\$0.46
Diluted earnings per share		\$0.59	(\$0.15)	\$0.44

Alaris Royalty Corp.

Notes to Unaudited Condensed Consolidated Interim Financial Statements
Three and nine months ended September 30, 2011

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 Sept 2010	Nine months ended 30 Sept 2010
Consolidated statement of comprehensive income		
Non-cash stock based compensation expenses	\$16,914	\$36,843
Stock based compensation expenses	(57,378)	(164,969)
Adjust before income tax	<u>(40,464)</u>	<u>(128,126)</u>
Consolidated statement of financial position		
Contributed surplus		435,411
Related tax effect		(126,269)
Adjustment to retained earnings		<u>\$309,142</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 Sept 2010
Consolidated statement of financial position	
Deficit/Retained earnings	21,423,570
Adjustment to retained earnings	<u>\$21,423,570</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 Sept 2010	Nine months ended 30 Sept 2010
Consolidated statement of comprehensive income		
Net change in fair value of available for sale assets	\$984,000	\$4,129,466
Adjust before income tax	<u>984,000</u>	<u>4,129,466</u>
Consolidated statement of financial position		
Preferred LP Units	984,000	4,129,466
Related tax effect	(123,000)	(516,183)
Adjustment to retained earnings	<u>\$861,000</u>	<u>3,613,283</u>

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