

Unaudited Consolidated Financial Statements of

**ALARIS ROYALTY CORP.**

For the three and six months ended June 30, 2009

# ALARIS ROYALTY CORP.

Consolidated Balance Sheets, Unaudited

|   | June 30,<br>2009      | December 31,<br>2008  |
|---|-----------------------|-----------------------|
| <b>Assets</b>   |                       |                       |
| Current assets:                                       |                       |                       |
| Cash  | \$ 2,213,791          | \$ 1,743,936          |
| Accounts receivable                                   | 82,133                | 11,307                |
| Prepaid expenses                                      | 29,722                | 35,417                |
| Future income taxes (note 10)                         | 979,476               | 3,649,476             |
| Investment tax credit receivable (note 10)            | —                     | 150,798               |
|   | <u>3,305,122</u>      | <u>5,590,934</u>      |
| Investment tax credit receivable (note 10)            | 6,441,259             | 6,441,259             |
| Future income taxes (note 10)                         | 25,927,218            | 25,528,693            |
| Equipment (note 4)                                    | 76,658                | 90,458                |
| Investments (note 3):                                 |                       |                       |
| Preferred LP units                                    | 98,124,642            | 98,124,642            |
| Intangible assets                                     | 13,156,766            | 13,243,384            |
|   | <u>111,281,408</u>    | <u>111,368,026</u>    |
|   | <u>\$ 147,031,665</u> | <u>\$ 149,019,370</u> |
| <b>Liabilities and Shareholders' Equity/(Deficit)</b> |                       |                       |
| Current liabilities:                                  |                       |                       |
| Accounts payable and accrued liabilities              | \$ 447,047            | \$ 443,553            |
| Dividends payable                                     | 639,006               | 1,094,620             |
| Future income taxes (note 10)                         | 55,000                | 42,932                |
| Bank indebtedness (note 5)                            | 4,000,000             | —                     |
| Subordinated debt (note 5)                            | 6,500,000             | 6,500,000             |
|   | <u>11,641,053</u>     | <u>8,081,105</u>      |
| Bank indebtedness (note 5)                            | 20,000,000            | 25,000,000            |
| Future income taxes (note 10)                         | 3,081,988             | 3,136,988             |
| Deferred credit (note 10)                             | 25,348,780            | 27,497,912            |
| Shareholders' equity/(deficit):                       |                       |                       |
| Shareholder's capital (note 6)                        | 98,360,219            | 98,278,747            |
| Contributed surplus                                   | 1,057,904             | 264,472               |
| Deficit   | (12,458,279)          | (13,239,854)          |
|   | <u>86,959,844</u>     | <u>85,303,365</u>     |
| Commitments (note 13)                                 |                       |                       |
| Subsequent events (note 14)                           |                       |                       |
|   | <u>\$ 147,031,665</u> | <u>\$ 149,019,370</u> |

See accompanying notes to consolidated financial statements.

On behalf of the Board:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

# ALARIS ROYALTY CORP.

Consolidated Statements of Operations and Deficit, Unaudited

|   | Three months ended    |                  | Six months ended      |                      |
|---|-----------------------|------------------|-----------------------|----------------------|
|   | June 30,              |                  | June 30,              |                      |
|   | 2009                  | 2008             | 2009                  | 2008                 |
| <b>Revenues:</b>  |                       |                  |                       |                      |
| Royalties and distributions                                 | \$ 4,342,389          | \$ 4,737,408     | \$ 8,941,000          | \$ 9,418,233         |
| Interest and other  | 1,800                 | 6,733            | 3,637                 | 8,233                |
|   | <u>4,344,189</u>      | <u>4,744,141</u> | <u>8,944,637</u>      | <u>9,426,466</u>     |
| <b>Expenses:</b>  |                       |                  |                       |                      |
| Interest  | 533,482               | 3,341,893        | 1,108,961             | 6,725,708            |
| Non-cash stock based<br>compensation (note 8)               | 426,776               | -                | 867,820               | -                    |
| Salaries and benefits                                       | 237,766               | 197,825          | 450,677               | 434,911              |
| Corporate and office  | 113,686               | 93,358           | 265,151               | 169,866              |
| Legal and accounting fees                                   | 120,986               | 156,513          | 258,258               | 167,878              |
| Stock based compensation (note 8)                           | 49,687                | -                | 123,028               | -                    |
| Depreciation and amortization                               | 55,600                | 58,382           | 113,538               | 116,762              |
|   | <u>1,537,983</u>      | <u>3,847,971</u> | <u>3,187,433</u>      | <u>7,615,125</u>     |
| Net Income before taxes                                     | 2,806,206             | 896,170          | 5,757,208             | 1,811,341            |
| Future income tax expense (note 10)                         | 175,834               | -                | 230,209               | -                    |
| Net Income and other<br>comprehensive income for the period | 2,630,372             | 896,170          | 5,526,999             | 1,811,341            |
| Deficit, beginning of period                                | (13,171,811)          |                  | (13,239,854)          | (2,542,839)          |
| Distributions to unitholders (note 7)                       | -                     | (810,000)        | -                     | (1,620,000)          |
| Dividends to shareholders (note 7)                          | (1,916,840)           | -                | (4,745,424)           | -                    |
| Deficit, end of period                                      | <u>\$(12,458,279)</u> | <u>\$</u>        | <u>\$(12,458,279)</u> | <u>\$(2,351,496)</u> |
| Earnings per share, basic                                   | \$ 0.29               | \$ 0.60          | \$ 0.61               | \$ 1.21              |
| Earnings per share, fully diluted                           | \$ 0.27               | \$ 0.60          | \$ 0.57               | \$ 1.21              |
| Weighted average shares<br>outstanding, basic               | 9,127,403             | 1,500,010        | 9,125,711             | 1,500,010            |
| Weighted average shares<br>outstanding, fully diluted       | 9,730,953             | 1,500,010        | 9,729,261             | 1,500,010            |

See accompanying notes to consolidated financial statements.

# ALARIS ROYALTY CORP.

Consolidated Statements of Cash Flows, Unaudited

|                                      | Three months ended  |                     | Six months ended    |                     |
|--------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                      | June 30,            |                     | June 30,            |                     |
|                                      | 2009                | 2008                | 2009                | 2008                |
| Cash provided by (used in):          |                     |                     |                     |                     |
| Operations:                          |                     |                     |                     |                     |
| Net Income for the period            | \$ 2,630,372        | \$ 896,170          | \$ 5,526,999        | \$ 1,811,341        |
| Add non-cash items:                  |                     |                     |                     |                     |
| Depreciation and amortization        | 55,600              | 58,380              | 113,538             | 116,762             |
| Stock based compensation<br>(note 8) | 426,776             | -                   | 867,820             | -                   |
| Income tax expense                   | 175,834             | -                   | 230,209             | -                   |
|                                      | <u>3,288,582</u>    | <u>954,550</u>      | <u>6,738,566</u>    | <u>1,925,103</u>    |
| Change in non-cash working capital   | (186,126)           | 172,529             | (54,551)            | (376,014)           |
|                                      | <u>3,102,456</u>    | <u>1,127,079</u>    | <u>6,684,015</u>    | <u>1,552,089</u>    |
| Investing:                           |                     |                     |                     |                     |
| Purchase of capital assets           | (13,121)            | -                   | (13,121)            | -                   |
| Financing:                           |                     |                     |                     |                     |
| Distributions to unitholders         | -                   | (810,000)           | -                   | (1,620,000)         |
| Dividends to shareholders            | (1,916,664)         | -                   | (5,201,039)         | -                   |
| Repayment of debt                    | (700,000)           | -                   | (1,000,000)         | -                   |
|                                      | <u>(2,616,664)</u>  | <u>(810,000)</u>    | <u>(6,201,039)</u>  | <u>(1,620,000)</u>  |
| Increase/(decrease) in cash          | 472,671             | 317,079             | 469,855             | (67,912)            |
| Cash, beginning of period            | 1,741,120           | 1,214,348           | 1,743,936           | 1,599,339           |
| Cash, end of period                  | <u>\$ 2,213,791</u> | <u>\$ 1,531,427</u> | <u>\$ 2,213,791</u> | <u>\$ 1,531,427</u> |

See accompanying notes to consolidated financial statements

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements

Three and six months ended June 30, 2009

---

## 1. Basis of presentation:

On July 31, 2008 Alaris Royalty Corp., formerly 6550568 Canada Inc. ("Alaris" or the "Corporation") acquired Alaris Income Growth Fund L.P. (the "Partnership") (the "Acquisition"). After the Acquisition, the former owners of the Partnership held the largest percentage (although less than 50%) of the Class A Common Voting Shares and provided the Corporation's management, therefore the Partnership was deemed to be the acquirer for accounting purposes. Accordingly, the transaction has been accounted for as a reverse takeover. The share capital of the prior year and up to July 31, 2008 was that of the Partnership. Subsequent to the transaction date, the share capital was that of the Corporation.

Pursuant to the Acquisition, Alaris acquired: (i) the 750,000 issued and outstanding units (the "Alaris L.P. Units") of the Partnership held by Alaris Commercial Trust, a trust owned by the Partnership's largest owner, by the issuance of 666,667 voting common shares in the capital of Alaris ("Common Shares"); and (ii) all of the outstanding shares of Alaris IGF Corp. ("Alaris GP"), the general partner of the Partnership, from the holders thereof, being Alaris Commercial Trust and the management team of the Corporation, who purchased their shares in Alaris GP shortly before the Acquisition pursuant to the terms of employment stock options, by issuance of 666,668 non-voting common shares in the capital of Alaris Royalty Corp. ("Non-Voting Shares"). Alaris GP owns 750,010 Partnership Units, being the remaining issued and outstanding Partnership Units, and therefore, upon the completion of the Acquisition the Corporation acquired directly and indirectly 100% of the issued and outstanding Alaris L.P. Units.

On July 31, 2008, and prior to the Acquisition, Alaris satisfied the release conditions of its previously completed subscription receipt financing and issued an aggregate of 4,607,213 Common Shares to the former holders of subscription receipts in accordance with the terms of the subscription receipts. The subscription receipts had been issued at price of \$12 per subscription receipt for aggregate gross proceeds of \$55,286,556 less share issue costs of \$3,622,225. In addition, the Corporation acquired \$83,500,000 of the Partnership's outstanding \$90,000,000 subordinated debt from 409790 Alberta Ltd. for \$51,500,000 in cash and the issuance of 2,666,667 Common Shares.

Alaris will continue the business and operations of the Partnership. The Partnership's operations consist primarily of investments in operating entities, typically in the form of long-term license and royalty arrangements or preferred limited partnership interests.

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 2

Three and six months ended June 30, 2009

---

## 2. Significant accounting policies:

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

### (a) Investments:

Investments result from: (1) the direct or indirect purchase of intellectual property from various organizations/vendors and the subsequent license-back of the right for exclusive use to the vendor; or (2) the direct or indirect subscription for a preferred interest in a limited partnership; which interests provide a monthly distribution that is adjusted annually on the basis of a formula linked to revenues, gross margin, same-store sales, or other "top-line" measures as outlined in each of the respective agreements. Investments are initially recognized and measured at cost, including acquisition costs incurred after a letter of intent is signed, such as financial and legal due diligence fees relating directly to the purchase.

Investments that are a royalty structure are being amortized on a straight-line basis over an 80-year period and individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Investments that are a preferred interest in a limited partnership are not amortized but are assessed for objective evidence of impairment at each balance sheet date. When there is objective evidence that the investment has been impaired, and there is a decline in the recoverable amount below cost that is other than temporary, the amount of the impairment loss is the difference between the carrying amount of the investment and its fair value. Fair value is estimated using discounted cash flows.

### (b) Equipment:

Equipment is recorded at cost. Depreciation is provided for over the estimated useful lives of assets on a declining balance basis.

### (c) Intangible assets:

Effective January 1, 2009, the Corporation adopted CICA section 3064 Goodwill and Intangible Assets. The implementation of this standard did not have a material effect on the Company's financial statements.

### (d) Revenue recognition:

Revenue consists of amounts generated by licensing intellectual property or distributions from preferred interests in a limited partnership and is recognized when the monthly payments become due and are considered collectible.

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 3

Three and six months ended June 30, 2009

## 2. Significant accounting policies (continued):

### (e) Financial instruments:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Corporation has designated its financial instruments into the following categories applying the indicated measurement methods:

| Financial Instrument                     | Category              | Measurement Method |
|--|-----------------------|--------------------|
| Cash and cash equivalents                | Held for trading      | Fair value         |
| Accounts receivable                      | Loans and receivables | Amortized cost     |
| Preferred LP units                       | Available for sale    | Cost               |
| Accounts payable and accrued liabilities | Other liabilities     | Amortized cost     |
| Bank indebtedness                        | Other liabilities     | Amortized cost     |
| Subordinated debt                        | Other liabilities     | Amortized cost     |

The Corporation will assess at each reporting period whether there is a financial asset, other than those classified as held for trading, that is impaired. An impairment loss, other than temporary, is included in net earnings.

The Corporation has no embedded derivatives.

The Corporation records all transaction costs incurred, in relation to the acquisition of investments classified as "available for sale", as an additional cost of the investment.

The Corporation applies trade-date accounting for the recognition of a purchase or sale of cash equivalents and derivative contracts.

### (f) Income taxes:

The Corporation follows the asset and liability method of accounting for income taxes. The Corporation is a taxable entity under the Income Tax Act (Canada).

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 4

Three and six months ended June 30, 2009

## 2. Significant accounting policies (continued):

### (g) Stock-based compensation:

The Corporation accounts for stock-based compensation in accordance with CICA Handbook section 3870 "Stock-Based Compensation and Other Stock-Based Payments". This standard requires that stock-based payments to non-employees and direct awards of stock to employees and non-employees are accounted for using a fair-value method of accounting.

### (h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Significant management estimates include valuation of investments and collectability of future royalties and distributions.

## 3. Investments:

| June 30, 2009            | Cost          | Acquisition Costs | Capitalized Amortization | Accumulated Net Cost |
|--------------------------|---------------|-------------------|--------------------------|----------------------|
| LifeMark Health          | \$ 46,500,000 | \$ 291,362        | \$ -                     | \$ 46,791,362        |
| Lower Mainland Steel     | 51,000,000    | 333,280           | -                        | 51,333,280           |
| Total Preferred LP Units | 97,500,000    | 624,642           | -                        | 98,124,642           |
| End of the Roll          | 7,200,000     | 74,920            | (386,440)                | 6,888,480            |
| MEDlchair                | 6,500,000     | 83,758            | (315,472)                | 6,268,286            |
| Total Intangible Assets  | 13,700,000    | 158,678           | (701,913)                | 13,156,766           |
|                          | \$111,200,000 | \$ 783,320        | \$ (701,913)             | \$111,281,408        |

  

| December 31, 2008        | Cost          | Costs      | Amortization | Net Cost      |
|--------------------------|---------------|------------|--------------|---------------|
| LifeMark Health          | \$ 46,500,000 | \$ 291,362 | \$ -         | \$ 46,791,362 |
| Lower Mainland Steel     | 51,000,000    | 333,280    | -            | 51,333,280    |
| Total Preferred LP Units | 97,500,000    | 624,642    | -            | 98,124,642    |
| End of the Roll          | 7,200,000     | 74,920     | (340,971)    | 6,933,949     |
| MEDlchair                | 6,500,000     | 83,758     | (274,323)    | 6,309,435     |
| Total Intangible Assets  | 13,700,000    | 158,678    | (615,294)    | 13,243,384    |
|                          | \$111,200,000 | \$ 783,320 | \$ (615,294) | \$111,368,026 |

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 5

Three and six months ended June 30, 2009

### 3. Investments (continued):

Royalties and distributions:

|                      | Three months ended  |                     | Six months ended    |                     |
|----------------------|---------------------|---------------------|---------------------|---------------------|
|                      | June 30,            |                     | June 30,            |                     |
|                      | 2009                | 2008                | 2009                | 2008                |
| LifeMark Health      | \$ 1,971,441        | \$ 1,866,366        | \$ 3,942,883        | \$ 3,732,732        |
| Lower Mainland Steel | 1,733,243           | 2,259,730           | 3,643,507           | 4,384,720           |
| End of the Roll      | 346,638             | 331,870             | 766,253             | 733,607             |
| MEDlchair            | 291,067             | 279,442             | 588,357             | 567,174             |
|                      | <u>\$ 4,342,389</u> | <u>\$ 4,737,408</u> | <u>\$ 8,941,000</u> | <u>\$ 9,418,233</u> |

#### I – Preferred LP Units

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

The Corporation holds 900,000 class A preferred partnership units ("LifeMark A Units") and 4,000,000 class B preferred partnership units ("LifeMark B Units") in LifeMark Health (the "LifeMark Investment"). The 900,000 LifeMark A Units and 2,600,000 of the LifeMark B Units were acquired on December 30, 2004 for an aggregate acquisition cost of \$35 million. Alaris acquired 150,000 of the LifeMark B Units from LifeMark Health on June 15, 2005 for an aggregate acquisition cost of \$1.5 million; acquired 250,000 of the LifeMark B Units from LifeMark Health on October 1, 2005 for an aggregate acquisition cost of \$2.5 million; and acquired 750,000 of the LifeMark B units from LifeMark Health on August 1, 2006 for an aggregate acquisition cost of \$7.5 million.

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

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 6

Three and six months ended June 30, 2009

---

### 3. Investments (continued):

I – Preferred LP Units (continued)

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

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

LifeMark Health has the option at any time after December 30, 2009 (i) to repurchase all (but not less than all) of the LifeMark A and B Preferred Units at an aggregate price equal to the total distributions for the then current fiscal year multiplied by the then current trading multiple of Alaris Royalty Corp. subject to a minimum of the aggregate purchase price of the Units (the "Repurchase Right").

(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. Commencing December 21, 2007 the Corporation was entitled to a base preferred distribution of \$8.5 million over the next twelve months. The base is in two distinct portions and is adjusted at two points (January 1<sup>st</sup> and April 1<sup>st</sup>) in each subsequent twelve month period to the Preferred Distribution for the prior twelve month period multiplied by the percentage increase or decrease in LMS' Gross Profit (as defined in the LMS Partnership Agreement) for the most recently completed fiscal year. The first portion was originally \$2.5 million, increased to \$3.04 million effective April 1, 2008 and then decreased to \$2.5 million effective April 1, 2009. The second portion was originally \$6 million and was decreased to \$4.6 million effective January 1, 2009 based on LMS' audited financial statements. Distributions on the LMS Units are paid 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 price equal to 8.5 times the then current annual distributions subject to a minimum of the aggregate purchase price of the LMS Units (the "Repurchase Right").

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 7

Three and six months ended June 30, 2009

---

### 3. Investments (continued):

#### II – Intangible Assets

##### (c) 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, proprietary system for operating franchises and all goodwill associated with its business. 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 an aggregate price equal to the total royalty for the then current fiscal year multiplied by the then current trading multiple of Alaris Royalty Corp. subject to a minimum of the amount invested into End of the Roll (the "Repurchase Right").

If a Material Breach (as defined in the License Agreement) occurs under the ER License Agreement, End of the Roll is required to pay to the Corporation the present value (calculated using a discount rate of 5.10% per annum) of the initial Royalty for 10 years from the date of the Material Breach together with any outstanding Royalty Payments and the Corporation may elect to terminate the ER License Agreement.

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 8

Three and six months ended June 30, 2009

---

### 3. Investments (continued):

II – Intangible Assets (continued):

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

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

If a Material Breach (as defined in the MEDlchair License Agreement) occurs under the License Agreement, MEDlchair is required to pay to the Corporation the present value (calculated using a discount rate of 5.5% per annum) of the then current Royalty for 10 years from the date of the Material Breach together with any outstanding Royalty Payments and the Corporation may, terminate the License Agreement.

MEDlchair has the option at any time after October 1, 2010 to repurchase the MEDlchair IP (and terminate the Royalty) at an aggregate price equal to the total royalty for the then current fiscal year multiplied by the then current trading multiple of Alaris Royalty Corp. subject to a minimum of the amount invested into MEDlchair (the "Repurchase Right").

### 4. Equipment:

Equipment consists of leasehold improvements, furniture and fixtures, and computer equipment. The amounts are net of accumulated depreciation of \$306,848 (December 31, 2008 - \$279,927).

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 9

Three and six months ended June 30, 2009

## 5. Debt:

The Corporation has a \$25,000,000 secured revolving credit facility (\$24,000,000 outstanding at June 30, 2009) with a syndicate of Canadian chartered banks. Interest is payable at the lenders' prime rate plus 3% (5.25% at June 30, 2009). The term out date under the credit facility is December 18, 2009. If an extension is not received by December 20, 2009, the facility will be repaid in thirty-six equal monthly installments commencing January 20, 2010, therefore, a portion of the debt is shown as a current liability in the financial statements. There are financial covenants under this facility and at June 30, 2009, the Corporation is in compliance with each of the covenants based on a letter received by the Corporation subsequent to December 31, 2008 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. No bank fees were paid in the six months ended June 30, 2009. In 2008, \$327,500 was paid as a result of the restructuring described in note 1 and the renewal of the facility in December 2008.

The Corporation has a \$6,500,000 unsecured demand facility with a company controlled by its largest shareholder. The loan was originally \$90,000,000 and on July 31, 2008, \$51,500,000 was repaid and \$32,000,000 was purchased for shares of the Corporation. Interest is payable at 13.00% per annum.

## 6. Shareholders equity:

The Corporation has authorized, issued and outstanding, 8,461,984 voting and 666,665 non-voting common shares.

|   | Number of<br>Shares | Amount        |
|---|---------------------|---------------|
| Issued Common Shares  |                     |               |
| Balance at December 31, 2008                                  | 8,455,169           | \$ 90,278,747 |
| Issued in lieu of dividends on restricted share units in 2009 | 6,815               | 81,472        |
| Balance at June 30, 2009 (Voting shares)                      | 8,461,984           | 90,360,219    |
| Non-voting shares   | 666,665             | 8,000,000     |
|   | 9,128,649           | \$ 98,360,219 |

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 10

Three and six months ended June 30, 2009

---

## 7. Dividends and Distributions:

For January and February 2009, the Corporation had declared a dividend of \$0.12 per voting and non-voting common share and for March, April, May and June 2009, the Corporation had declared a dividend of \$0.07 per voting and non-voting common share (\$4,745,424 in aggregate).

Prior to the reorganization and for the six months ended June 30, 2008, the Partnership paid distributions to unitholders of \$1.08 per unit, \$1,620,000 in aggregate.

## 8. Stock-based compensation:

The Corporation has a Restricted Share Unit Plan ("RSU Plan") and a Stock Option Plan as approved by shareholders at a special shareholders meeting on July 31, 2008 that authorizes the Board of Directors to grant awards of RSUs and Options subject to a maximum of ten percent of the issued and outstanding common shares of the Corporation.

The RSU Plan will settle in voting common shares which may be issued from treasury or purchased on the Toronto Stock Exchange. The Corporation has reserved 591,662 and issued 379,400 RSUs to management and Directors on October 29, 2008. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (285,650) 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 a \$12 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 six months ended June 30, 2009, the Corporation incurred stock-based compensation expenses of \$990,848, which includes: \$758,800 (non-cash expense) for the first two quarters of the 2009 portion of the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan; \$123,028 for payments to staff and directors in lieu of dividends under the RSU Plan; \$74,388 (non-cash expense) for shares issued in lieu of dividends under the RSU Plan; and \$34,632 (non-cash expense) for the first two quarters of the 2009 amortization of the fair value of outstanding stock options calculated using the Black-Scholes method and the assumptions outlined below. The Corporation has reserved 253,569 and issued 224,150 options that vest over a four-year period and expire in five years.

---

|                                   |         |
|-----------------------------------|---------|
| Dividend yield                    | 12%     |
| Expected volatility               | 38%     |
| Risk free rate of return          | 2.73%   |
| Expected option life              | 5 years |
| Weighted average value per option | \$ 1.24 |

---

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 11

Three and six months ended June 30, 2009

## 9. Financial risk management

These statements should be read in conjunction with the audited financial statements for the year ended December 31, 2008 - which includes a note to the financial statements addressing the financial risk management of the Corporation.

## 10. Income taxes

Income tax expense is calculated by using the combined federal and provincial statutory income tax rates. Prior to the restructuring on July 31, 2008, the entity was structured as a 100% flow-through entity and taxes were payable only by the unitholders. 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<br>ended<br>June 30,<br>2009 | Year ended<br>December 31,<br>2008 |
|---|---|------------------------------------|
| Earnings (loss) before income taxes                       | \$ 5,757,208                            | \$ (1,355,263)                     |
| Combined federal and provincial statutory income tax rate | 29.00%                                  | 29.50%                             |
| Expected income tax provision                             | \$ 1,669,590                            | \$ (399,803)                       |
| Impact of restructuring                                   | -                                       | 1,474,243                          |
| Non-deductible expense (recoveries)                       | 286,372                                 | 2,435,543                          |
| Increase in valuation allowance                           | -                                       | 1,874,253                          |
| Drawdown of deferred credit                               | (2,149,132)                             | (3,065,037)                        |
| Expiry of investment tax credits                          | 107,866                                 | -                                  |
| Income allocated to former partners                       | -                                       | (638,970)                          |
| Rate changes and other                                    | 315,513                                 | 16,447                             |
|   | \$ 230,209                              | \$ 1,696,676                       |

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 12

Three and six months ended June 30, 2009

## 10. Income Taxes (continued):

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

|  | Six months<br>ended<br>June 30,<br>2009 | Year ended<br>December 31,<br>2008 |
|--|---|------------------------------------|
| Future income tax assets (liabilities):  |   |                                    |
| Non-capital losses and unclaimed scientific research and development expenses ("SRED") | \$30,843,247                            | \$33,114,722                       |
| Equipment  | 84,893                                  | 84,893                             |
| Share issue costs  | 1,027,439                               | 1,027,439                          |
| Intangible assets  | (1,532,908)                             | (1,532,908)                        |
| Investment tax credits   | (1,688,973)                             | (1,731,905)                        |
|  | 28,733,698                              | 30,962,241                         |
| Valuation allowance  | (4,963,992)                             | (4,963,992)                        |
|  | \$23,769,706                            | \$25,998,249                       |

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

|                       | Six months<br>ended<br>June 30,<br>2009 | Year ended<br>December 31,<br>2008 |
|-----------------------|---|------------------------------------|
| Current assets        | \$ 979,476                              | \$ 3,649,476                       |
| Long-term assets      | 25,927,218                              | 25,528,693                         |
| Current liabilities   | (55,000)                                | (42,932)                           |
| Long-term liabilities | (3,081,988)                             | (3,136,988)                        |
|                       | \$23,769,706                            | \$25,998,249                       |

As at June 30, 2009, the Corporation has non-capital losses available to reduce income tax in future years that expire from time to time as follows:

|                |               |
|----------------|---------------|
| 2009           | \$ 8,627,923  |
| 2013           | 31,014,281    |
| 2014           | 21,537,689    |
| 2025 and later | 3,381,931     |
|                | \$ 64,561,824 |

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 13

Three and six months ended June 30, 2009

---

## 10. Income Taxes (continued):

As at June 30, 2009, the Corporation has unused federal income tax credits which expire from time to time as follows (based on future earnings estimates, a portion of the tax credits will not be recognized):

---

|                                 |              |
|---------------------------------|--------------|
| 2010                            | 1,623,342    |
| 2011                            | 1,935,046    |
| 2012                            | 1,295,097    |
| 2013                            | 3,296,237    |
| 2014                            | 1,840,597    |
| 2025                            | 647,624      |
| Less tax credits not recognized | (4,196,684)  |
|                                 | <hr/>        |
|                                 | \$ 6,441,259 |

---

As at June 30, 2009, the Corporation has a deferred credit of \$25,348,780:

---

|                                       |               |
|---------------------------------------|---------------|
| Deferred credit on 2008 restructuring | \$ 30,562,949 |
| Drawdown in prior years               | (3,065,037)   |
| Drawdown in current period            | (2,149,132)   |
|                                       | <hr/>         |
|                                       | \$ 25,348,780 |

---

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

## 11. Recent accounting pronouncements not yet adopted:

The CICA's Accounting Standards Board confirmed the changeover from Canadian GAAP to IFRS (International Financial Reporting Standards) will be required for publicly accountable enterprises beginning on January 1, 2011. The impact on the Corporation is currently being reviewed.

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 14

Three and six months ended June 30, 2009

---

## 12. Related party transactions:

The Corporation has a \$6.5 million demand loan with a company owned by its largest shareholder. For the year three and six months ended June 30, 2009, the Corporation paid interest of \$208,356 and \$419,027 respectively to this company (three and six months ended June 30, 2008 - \$2,909,016 and \$5,818,033 respectively).

On July 31, 2008 the Corporation completed the Acquisition of Alaris LP. In connection with the Acquisition the Corporation issued 3,111,111 Common Shares and paid \$51,500,000 in cash to entities owned or controlled by a director, and the largest shareholder, of the Corporation, in exchange for \$83,500,000 of Alaris LP's subordinated debt and 750,000 units of Alaris LP. In addition, the Corporation issued 666,668 Non-Voting Shares to the management of the Corporation, in exchange for the 666,667 shares of Alaris GP, the general partner of Alaris LP, held by them.

## 13. Commitments:

The Corporation concluded a five-year lease at its current office space on June 30, 2009. Due to construction delays, a one-month extension to July 31, 2009 was negotiated at a similar rate. On March 25, 2009, the Corporation signed a seven-year lease at a new location that was to commence July 1, 2009 ending June 30, 2016. The commencement has been delayed until August 2009.

---

|      |            |
|------|------------|
| 2009 | \$ 64,160  |
| 2010 | 128,320    |
| 2011 | 128,320    |
| 2012 | 131,528    |
| 2013 | 134,736    |
| 2014 | 134,736    |
| 2015 | 134,736    |
| 2016 | 67,368     |
|      | <hr/>      |
|      | \$ 923,904 |

---

## 14. Subsequent events:

Subsequent to June 30, 2009, the Corporation purchased additional LifeMark B units for \$1,000,000 entitling the Corporation to receive an annual distribution of \$181,818 on those units.