

Unaudited Condensed Consolidated Interim Financial Statements of

ALARIS ROYALTY CORP.

For the three months ended March 31, 2014

Alaris Royalty Corp.

Condensed consolidated statement of financial position (unaudited)

	Note	March 31 2014	December 31 2013
Assets			
Cash and cash equivalents		\$8,382,942	\$8,998,342
Prepayments and deposits	2	1,318,283	125,543
Trade and other receivables		2,003,891	955,831
Promissory notes receivable	4	8,550,000	8,500,000
Current Assets		20,255,116	18,579,716
Promissory notes receivable	4	6,915,000	6,915,000
Equipment		58,337	59,825
Intangible assets	4	6,456,531	6,479,265
Preferred LP and LLC Units	4	445,013,091	433,988,295
Investment tax credit receivable		9,569,693	10,922,393
Deferred income taxes		3,487,215	3,785,015
Non-current assets		471,499,867	462,149,793
Total Assets		\$491,754,983	\$480,729,509
Liabilities			
Accounts payable and accrued liabilities		\$456,263	\$1,361,588
Dividends payable		3,446,661	3,443,243
Income taxes payable		2,532,657	1,031,701
Foreign exchange contracts		993,431	633,801
Loans and borrowings	6	4,208,333	-
Current Liabilities		11,637,345	6,470,333
Loans and borrowings	6	46,291,667	44,500,000
Non-current liabilities		46,291,667	44,500,000
Total Liabilities		\$57,929,012	\$50,970,333
Equity			
Share capital	5	\$413,243,029	\$413,237,576
Equity reserve		6,411,141	5,688,079
Fair value reserve		(4,883,951)	(4,883,951)
Translation reserve		3,018,473	1,201,883
Retained Earnings		16,037,279	14,515,589
Total Equity		\$433,825,971	\$429,759,176
Total Liabilities and Equity		\$491,754,983	\$480,729,509
Commitments	9		

Alaris Royalty Corp.

Condensed consolidated statement of comprehensive income (unaudited)

For the three months ended March 31

	Note	2014	2013
Revenues			
Royalties and distributions	4	\$15,488,567	\$10,766,230
Interest		311,573	196,899
Loss on foreign exchange contracts		(359,629)	(155,653)
Total Revenue		15,440,511	10,807,476
Salaries and benefits		337,277	290,773
Corporate and office		497,104	384,217
Legal and accounting fees		309,474	153,575
Non-cash stock-based compensation	7	723,062	729,698
Depreciation and amortization		26,616	26,427
Subtotal		1,893,533	1,584,690
Earnings from operations		13,546,978	9,222,786
Finance costs		1,165,137	595,061
Unrealized foreign exchange gain		(2,897,622)	(459,780)
Earnings before taxes		15,279,463	9,087,505
Deferred income tax expense		1,650,500	2,076,180
Current income tax expense		1,682,129	321,937
Earnings		\$11,946,834	\$6,689,388
Other comprehensive income			
Foreign currency translation differences		1,816,590	304,043
Other comprehensive income for the period, net of income tax		1,816,590	304,043
Total comprehensive income for the period		\$13,763,424	\$6,993,431
Earnings per share			
Basic earnings per share		\$0.42	\$0.27
Fully diluted earnings per share		\$0.41	\$0.26
Weighted average shares outstanding			
Basic		28,713,974	24,715,021
Fully Diluted		29,363,717	25,329,889

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the three months ended March 31, 2013

	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2013		\$252,016,172	\$2,930,483	\$2,336,689	\$(265,220)	\$21,731,093	\$278,749,217
Total comprehensive income for the period							
Earnings for the period		-	-	-	-	6,689,388	6,689,388
Other comprehensive income							
Foreign currency translation differences		-	-	-	304,043	-	304,043
Total other comprehensive income		-	-	-	304,043	-	304,043
Total comprehensive income for the period		\$-	\$-	\$-	\$304,043	\$6,689,388	6,993,431
Transactions with shareholders of the Company, recognized directly in equity							
Contributions by and distributions to shareholders of the Company							
Non-cash stock based compensation	7	\$-	\$729,698	\$-	\$-	\$-	\$729,698
Dividends to shareholders	5	-	-	-	-	(7,898,919)	(7,898,919)
Options exercised in the period	5	2,627,026	(294,422)	-	-	-	2,332,604
Payments in lieu of dividends on RSUs	7	-	-	-	-	(64,631)	(64,631)
Shares issued after director RSU vesting	5	218,750	(218,750)	-	-	-	-
Shares issued in the period	5	59,142,000	-	-	-	-	59,142,000
Share issue costs, net of tax	5	(2,200,403)	-	-	-	32,649	(2,167,754)
Total transactions with Shareholders of the Company		59,787,373	216,526	-	-	(7,930,901)	52,072,998
Balance at March 31, 2013		\$311,803,545	\$3,147,009	\$2,336,689	\$38,823	\$20,489,580	\$337,815,646

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the three months ended March 31, 2014

	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2014		\$413,237,576	\$5,688,079	\$(4,883,951)	\$1,201,883	\$14,515,589	\$429,759,176
Total comprehensive income for the period							
Earnings for the period		-	-	-	-	11,946,834	11,946,834
Other comprehensive income							
Foreign currency translation differences		-	-	-	1,816,590	-	1,816,590
Total other comprehensive income		-	-	-	1,816,590	-	1,816,590
Total comprehensive income for the period		\$-	\$-	\$-	\$1,816,590	\$11,946,834	\$13,763,424
Transactions with shareholders of the Company, recognized directly in equity							
Contributions by and distributions to shareholders of the Company							
Non-cash stock based compensation	7	\$-	\$723,062	\$-	\$-	\$-	\$723,062
Dividends to shareholders	5	-	-	-	-	(10,339,982)	(10,339,982)
Options exercised in the period	5	5,453	-	-	-	-	5,453
Payments in lieu of dividends on RSUs	7	-	-	-	-	(85,162)	(85,162)
Total transactions with Shareholders of the Company		5,453	723,062	-	-	(10,425,144)	(9,696,629)
Balance at March 31, 2014		\$413,243,029	\$6,411,141	\$(4,883,951)	\$3,018,473	\$16,037,279	\$433,825,971

Alaris Royalty Corp.

Condensed consolidated statement of cash flows (unaudited)

For the three months ended March 31

	Note	2014	2013
Cash flows from operating activities			
Earnings from the period		\$11,946,834	\$6,689,388
Adjustments for:			
Finance costs		1,165,137	595,061
Deferred income taxes		1,650,500	2,076,180
Depreciation and amortization		26,616	26,427
Unrealized foreign exchange (gain)/loss		(2,897,622)	(459,780)
(Gain)/Loss on foreign exchange contracts		359,629	155,653
Non-cash stock based compensation	7	723,062	729,698
		<u>\$12,974,156</u>	<u>\$9,812,627</u>
Change in:			
-trade and other receivables		\$(1,080,041)	\$451,168
-prepayments		(1,192,740)	142,462
-trade and other payables		595,631	(967,539)
		<u>11,297,006</u>	<u>9,438,718</u>
Cash generated from operating activities		<u>11,297,006</u>	<u>9,438,718</u>
Finance costs		(1,165,137)	(595,061)
Net cash from operating activities		<u>\$10,131,869</u>	<u>\$8,843,657</u>
Cash flows from investing activities			
Acquisition of equipment		\$(2,394)	\$-
Acquisition of Preferred LP Units		(6,278,572)	(15,350,837)
Net cash used in investing activities		<u>\$(6,280,966)</u>	<u>\$(15,350,837)</u>
Cash flows from financing activities			
Proceeds from debt		6,000,000	15,000,000
Repayment of debt	6	-	(51,000,000)
Promissory notes issued		(50,000)	(6,000,000)
New share capital, net of share issue costs		-	56,208,127
Proceeds from exercise of options		5,453	2,332,604
Dividends paid	5	(10,336,564)	(7,597,310)
Payments in lieu of dividends on RSUs	7	(85,192)	(64,631)
Net cash used in financing activities		<u>\$(4,466,303)</u>	<u>\$8,878,790</u>
Net increase in cash and cash equivalents		<u>\$(615,400)</u>	<u>\$2,371,610</u>
Cash and cash equivalents, Beginning of period		<u>8,998,342</u>	<u>3,638,255</u>
Cash and cash equivalents, End of period		<u>\$8,382,942</u>	<u>\$6,009,865</u>

1. Reporting entity:

Alaris is a company domiciled in Calgary, Alberta, Canada. The condensed consolidated interim financial statements of the Company as at and for the three months ended March 31, 2014 comprise the financial statements of the Company and its subsidiaries (together referred to as the "Corporation"). The Corporation's Canadian operations are conducted through a partnership. The Corporation's American operations are conducted through a Delaware Corporation, Alaris USA Inc. ("Alaris USA"), formed on October 21, 2011. The Corporation's operations consist primarily of investments in private operating entities, typically in the form of preferred limited partnership interests, preferred interest in limited liability corporations in the United States, or long-term license and royalty arrangements. The Corporation also has a wholly-owned subsidiary in The Netherlands, Alaris Cooperatief U.A. ("Alaris Cooperatief").

2. Statement of compliance:

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. These condensed consolidated interim financial statements were approved by the Board of Directors on May 2, 2014.

(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 and Preferred LLC units) are measured at fair value with changes in fair value recorded in other comprehensive income
- Derivative financial instruments 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. Alaris USA uses the United States dollar, while Alaris Cooperatief uses the Canadian dollar as the functional currencies.

(d) Use of estimates

The preparation of the condensed consolidated interim financial statements 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.

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

Key judgments

A key judgment relates to the consideration of control, joint control and significant influence. The Corporation has agreements with various partners and these agreements include not only clauses as to distributions but also various protective rights. The Corporation has assessed these rights under IFRS 10 and 11 and determined that consolidation is not required.

2. Statement of compliance (continued):

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 8 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.

Income taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Management reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made. In 2014, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009 (the "Reassessment"). Pursuant to the Reassessment, the deduction of approximately \$10 million of non-capital losses by the Corporation was denied, resulting in reassessed taxes and interest of approximately \$3.6 million. The Corporation has received legal advice that it should be entitled to deduct the non-capital losses and as such, the Corporation remains of the opinion that its July 14, 2009 tax return was filed correctly and will withstand such Reassessment. The Corporation intends to vigorously defend its tax filing position. In order to do that, the Corporation is required to pay 50% of the reassessed amount as a deposit to the Canada Revenue Agency. During the first three months of 2014, the Corporation paid \$1,267,377 to the Canada Revenue Agency representing the Federal portion of the total estimated deposit of \$1.8 million. It is possible that the Corporation may be reassessed with respect to the deduction of its non-capital losses in respect of its tax filings subsequent to July 14, 2009, on the same basis.

3. Significant accounting policies:

There have been no changes to the Corporation's accounting policies from those disclosed in the consolidated Financial Statements of the Corporation for the years ended December 31, 2013 and 2012.

These condensed consolidated interim financial statements were prepared on the same basis of the audited financial statements for the year ending December 31, 2013.

4. Investments

Preferred LP and LLC Units:

March 31, 2014	Acquisition Cost		Capitalized Cost		Net Cost		Fair Value	
LifeMark Health	\$	19,502,159	\$	499,894	\$	20,002,053	\$	35,500,000
LMS		54,228,822		333,280		54,562,102		32,528,822
Solowave		32,500,000		511,253		33,011,253		32,600,000
KMH		54,800,000		559,192		55,359,192		55,431,198
Killick		41,250,000		257,544		41,507,544		44,800,000
Quetico		29,724,500		860,337		30,584,837		30,584,837
Labstat		47,200,000		518,944		47,718,944		45,718,944
Agility		22,210,500		717,030		22,927,530		22,927,530
SHS		15,000,000		512,014		15,512,014		-
SCR		40,000,000		487,339		40,487,339		40,487,339
Sequel		72,930,000		593,111		73,523,111		73,523,111
SMi		30,000,000		717,310		30,717,310		30,717,310
Capitalized costs		-		194,000		194,000		194,000
	\$	459,345,981	\$	6,761,248	\$	466,107,229	\$	445,013,091
December 31, 2013	Acquisition Cost		Capitalized Cost		Net Cost		Fair Value	
LifeMark Health	\$	19,502,159	\$	499,894	\$	20,002,053	\$	35,500,000
LMS		54,228,822		333,280		54,562,102		32,528,822
Solowave		32,500,000		511,253		33,011,253		32,600,000
KMH		54,800,000		559,192		55,359,192		55,431,198
Killick		41,250,000		257,544		41,507,544		44,800,000
Quetico		28,575,870		860,337		29,436,207		29,436,207
Labstat		41,200,000		518,944		41,718,944		39,718,944
Agility		21,352,230		712,284		22,064,514		22,064,514
SHS		15,000,000		512,014		15,512,014		-
SCR		40,000,000		486,389		40,486,389		40,486,389
Sequel		70,111,800		593,111		70,704,911		70,704,911
SMi		30,000,000		717,310		30,717,310		30,717,310
	\$	448,520,881	\$	6,561,552	\$	455,082,433	\$	433,988,295

The difference in the acquisition cost of Quetico, Agility and Sequel at December 31, 2013 and March 31, 2014 is due to foreign currency translation.

The Corporation holds intangible assets as follows:

March 31, 2014	Acquisition Cost		Capitalized Cost		Accumulated Amortization		Net Cost	
End of the Roll	\$	7,200,000	\$	74,920	\$	(818,389)	\$	6,456,531
December 31, 2013	Acquisition Cost		Capitalized Cost		Accumulated Amortization		Net Cost	
End of the Roll	\$	7,200,000	\$	74,920	\$	(795,655)	\$	6,479,265

4. Investments (continued):

The Corporation received royalties and distributions as follows:

Three months ending March 31

	2014	2013
Sequel	\$ 2,731,163	\$ -
KMH	2,067,303	2,067,303
Killick	1,678,273	1,442,089
SCR	1,600,000	-
Solowave	1,206,036	1,165,600
SMi	1,200,000	-
Quetico	1,096,051	1,169,627
LifeMark Health	989,232	1,755,000
Agility	895,490	500,375
Labstat	855,501	1,545,000
LMS	843,042	584,949
End of the Roll	326,475	335,212
SHS	-	201,075
	\$ 15,488,567	\$ 10,766,230

As part of being a long-term partner with the companies the Corporation holds preferred interests in, from time to time the Corporation has offered short-term financing solutions to assist with short-term needs of the individual businesses. At March 31, 2014, the following is a summary of the outstanding loans:

Partner	March 31, 2014	Dec 31, 2013
Current		
LMS	\$ 3,000,000	\$ 3,000,000
KMH	3,500,000	3,500,000
SHS	2,050,000	2,000,000
Total Current	\$ 8,550,000	\$ 8,500,000
Non-Current		
Labstat	6,915,000	6,915,000
Total	\$ 15,465,000	\$ 15,415,000

The terms of the various notes differ as half of the LMS notes can be converted to additional preferred units at the Corporation's option on December 31, 2013; a portion of the Labstat notes can be converted to preferred units as well, but not until 2015; and the SHS note is secured against certain assets of the SHS business.

5. Share capital:

In the three months ended March 31, 2014, the Corporation issued 26,250 shares that vested to Directors under the Restricted Share Unit ("RSU") Plan, and 2,227 shares as a result of the exercise of options for gross proceeds of \$5,453. The Corporation has authorized, issued and outstanding, 28,722,171 voting common shares as at March 31, 2014.

5. Share capital (continued):

Dividends

The following dividends were declared and paid by the Corporation:

In each of the first three months in 2014, the Corporation declared a dividend of \$0.12 per common share (\$10,339,982 in aggregate). For the three months ended March 31, 2013, dividends of \$0.105 per common share were declared (\$7,898,919 in aggregate).

6. Debt:

The Corporation has a \$75,100,000 secured revolving credit facility with a syndicate of Canadian chartered banks. The term out date under the credit facility is December 31, 2014. If monies are drawn, and if an extension is not received by December 31, 2014, the facility will be repaid in thirty-six equal monthly installments commencing January 31, 2015. Therefore, at March 31, 2014, three months of potential principal repayments are shown as current. There are financial covenants under this facility and at March 31, 2014, the Corporation is in compliance with each of the covenants. During the three months ending March 31, 2014, the Corporation borrowed \$6,000,000 for the acquisition of additional preferred units in Labstat leaving a balance of \$50,500,000 at March 31, 2014.

7. 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 648,386 and issued 238,207 RSUs to management and Directors as of March 31, 2014. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (159,457) do not vest until the end of the three year period (111,431 in September 2015 and 48,026 in July 2016) 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 was amortized over the thirty-six month vesting period. Payments in lieu of dividends on the unvested RSUs are made monthly in cash in accordance with the Corporation's dividend policy.

For the three months ended March 31, 2014, the Corporation incurred stock-based compensation expenses of \$723,062 (2013 - \$729,698) which includes: \$436,026 (non-cash expense) for the first quarter portion of the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2013 - \$342,012); and \$287,036 (non-cash expense) for the first quarter portion of the amortization of the fair value of outstanding stock options (2013 - \$387,686). The Corporation has reserved 2,149,362 and issued 1,796,248 options that vest over a four-year period and expire in five years.

The options outstanding at March 31, 2014 have an exercise price in the range of \$7.27 to \$33.87, a weighted average exercise price of \$24.43 and a weighted average contractual life of 3.3 years (2013 – 3.6 years).

8. Fair Value of Financial Instruments

The Corporation's financial instruments as at March 31, 2014 and December 31, 2013 include cash and cash equivalents, trade and other receivables, promissory note receivable, Preferred LP and LLC units, foreign exchange forward contracts, accounts payable and accrued liabilities, and loans and borrowings. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity. Loans and borrowings bear interest at a floating market rate and accordingly the fair market value approximates the carrying value. The fair values of the available for sale financial assets (Preferred LP and LLC Units) are estimated by evaluating a number of different methods:

- (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.

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following items shown on the condensed consolidated statement of financial position as at March 31, 2014 and December 31, 2013, are measured at fair value on a recurring basis using level 1 or level 2 inputs. The Corporation has no level 3 items and during the period ended March 31, 2014 there were no transfers between level 1 or level 2 classified assets and liabilities.

March 31, 2014	Level 1	Level 2	Total
Foreign exchange contracts	\$ -	\$ (993,431)	\$ (993,431)
Preferred LP and LLC units	-	445,013,091	445,013,091
	\$ -	\$ 444,019,660	\$ 444,019,660
December 31, 2013	Level 1	Level 2	Total
Foreign exchange contracts	\$ -	\$ (663,801)	\$ (663,801)
Preferred LP and LLC units	-	433,988,295	433,988,295
	\$ -	\$ 433,325,124	\$ 433,325,124

9. 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 is as follows:

2014	\$	131,922
2015		175,896
2016		161,238
	\$	469,056
