

Unaudited Condensed Consolidated Interim Financial Statements of

**ALARIS ROYALTY CORP.**

For the three and six months ended June 30, 2014

## Alaris Royalty Corp.

Condensed consolidated statement of financial position (unaudited)

		June 30 2014	December 31 2013
<b>Assets</b>			
Cash and cash equivalents		\$11,650,301	\$8,998,342
Prepayments and deposits	2	1,318,283	125,543
Trade and other receivables		2,632,453	955,831
Promissory notes receivable	4	7,550,000	8,500,000
<b>Current Assets</b>		<b>23,151,037</b>	<b>18,579,716</b>
Promissory notes receivable	4	6,915,000	6,915,000
Equipment		98,652	59,825
Intangible assets	4	6,433,796	6,479,265
Preferred LP and LLC Units	4	472,579,712	433,988,295
Investment tax credit receivable		10,922,393	10,922,393
Deferred income taxes	3	3,905,015	3,785,015
<b>Non-current assets</b>		<b>500,854,568</b>	<b>462,149,793</b>
<b>Total Assets</b>		<b>\$524,005,605</b>	<b>\$480,729,509</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities		\$2,487,223	\$1,361,588
Dividends payable		3,999,528	3,443,243
Income taxes payable		2,340,693	1,031,701
Foreign exchange contracts		317,896	633,801
<b>Current Liabilities</b>		<b>9,145,340</b>	<b>6,470,333</b>
Loans and borrowings	6	-	44,500,000
<b>Non-current liabilities</b>		<b>-</b>	<b>44,500,000</b>
<b>Total Liabilities</b>		<b>\$9,145,340</b>	<b>\$50,970,333</b>
<b>Equity</b>			
Share capital	5	\$497,297,701	\$413,237,576
Equity reserve		7,520,693	5,688,079
Fair value reserve		(4,829,091)	(4,883,951)
Translation reserve		1,058,602	1,201,883
Retained Earnings		13,812,360	14,515,589
<b>Total Equity</b>		<b>\$514,860,265</b>	<b>\$429,759,176</b>
<b>Total Liabilities and Equity</b>		<b>\$524,005,605</b>	<b>\$480,729,509</b>
Commitments	9		

## Alaris Royalty Corp.

Condensed consolidated statement of comprehensive income (unaudited)

	Note	Three months ended June 30		Six months ended June 30	
		2014	2013	2014	2013
<b>Revenues and other income</b>					
Royalties and distributions	4	\$15,920,210	\$ 11,363,576	\$31,407,252	\$ 22,142,406
Interest and other		314,505	268,320	626,078	465,219
Gain on reduction of partner interests	4	-	13,052,160	-	13,052,160
Gain/(loss) on foreign exchange contracts		675,535	(333,349)	315,906	(489,002)
<b>Total Revenue and other income</b>		<b>16,910,250</b>	<b>24,350,707</b>	<b>32,349,236</b>	<b>35,170,783</b>
Salaries and benefits		2,353,965	1,775,414	2,691,243	2,066,187
Corporate and office		429,606	403,769	923,079	789,017
Legal and accounting fees		453,204	430,137	762,663	576,834
Non-cash stock-based compensation	7	1,110,080	748,061	1,833,142	1,477,760
Depreciation and amortization		27,699	26,427	54,315	52,855
<b>Subtotal</b>		<b>4,374,554</b>	<b>3,383,808</b>	<b>6,264,442</b>	<b>4,962,653</b>
<b>Earnings from operations</b>		<b>12,535,696</b>	<b>20,966,899</b>	<b>26,084,794</b>	<b>30,208,130</b>
Finance cost		876,075	351,577	2,041,212	946,638
Unrealized foreign exchange (gain)/loss		3,559,064	(791,430)	661,442	(1,251,210)
<b>Earnings before taxes</b>		<b>8,100,557</b>	<b>21,406,752</b>	<b>23,382,140</b>	<b>30,512,702</b>
Current income tax expense	3	(123,912)	329,870	1,548,144	654,071
Deferred income tax expense	3	(520,700)	3,480,220	1,129,800	5,517,000
<b>Earnings</b>		<b>\$8,745,169</b>	<b>\$ 17,596,662</b>	<b>\$20,704,196</b>	<b>\$ 24,341,631</b>
<b>Other comprehensive income</b>					
Net change in fair value of Preferred LP Units	4	(73,940)	-	(73,940)	-
Tax impact of change in fair value		128,800	-	128,800	-
Realized gain on reduction of partnership interest			(13,052,160)		(13,052,160)
Tax impact of realized gain			1,631,520		1,631,520
Foreign currency translation differences		(1,959,871)	562,838	(143,281)	866,881
<b>Other comprehensive income for the period, net of income tax</b>		<b>(1,905,011)</b>	<b>(10,857,802)</b>	<b>(88,421)</b>	<b>(10,553,759)</b>
<b>Total comprehensive income for the period</b>		<b>\$6,840,158</b>	<b>\$ 6,738,860</b>	<b>\$20,615,775</b>	<b>\$ 13,787,872</b>
<b>Earnings per share</b>					
Basic earnings per share		\$0.30	\$0.70	\$0.72	\$0.97
Fully diluted earnings per share		\$0.30	\$0.68	\$0.70	\$0.94
<b>Weighted average shares outstanding</b>					
Basic		28,902,064	24,963,420	28,808,539	25,209,090
Fully Diluted		29,443,718	25,909,305	29,451,067	25,865,859

## Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the six months ended June 30, 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	\$278,749,212
<b>Total comprehensive income for the period</b>							
<b>Earnings for the period</b>		-	-	-	-	24,341,631	24,341,631
<b>Other comprehensive income</b>							
Realized gain on LifeMark redemption	4	-	-	(13,052,160)	-	-	(13,052,169)
Tax impact on realized gain		-	-	1,631,520	-	-	1,631,519
Foreign currency translation differences		-	-	-	866,881	-	866,881
<b>Total other comprehensive income</b>		-	-	(11,420,640)	866,881	-	(10,553,759)
<b>Total comprehensive income for the period</b>		\$-	\$-	\$(11,420,640)	\$866,881	\$24,341,631	\$13,787,872
<b>Transactions with shareholders of the Company, recognized directly in equity</b>							
<b>Contributions by and distributions to shareholders of the Company</b>							
Non-cash stock based compensation	7	\$-	\$1,477,759	\$-	\$-	\$-	\$1,477,759
Dividends to shareholders	5	-	-	-	-	(16,091,867)	(16,091,867)
Shares issued in the period		59,142,000	-	-	-	-	59,142,000
Share issue costs, net of tax		(2,587,040)	-	-	-	-	(2,587,040)
Options exercised in the period		2,627,026	(294,422)	-	-	-	2,332,604
Payments in lieu of dividends on RSUs	7	-	-	-	-	(129,263)	(129,263)
Shares issued after director RSU vesting	7	218,750	(218,750)	-	-	-	-
<b>Total transactions with Shareholders of the Company</b>		59,400,736	964,587	-	-	(16,221,130)	44,144,193
Balance at June 30, 2013		\$311,416,908	\$3,895,070	\$(9,083,951)	\$601,661	\$29,851,594	\$336,681,282

## Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the six months ended June 30, 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
<b>Total comprehensive income for the period</b>							
<b>Earnings for the period</b>		-	-	-	-	20,704,196	20,704,196
<b>Other comprehensive income</b>							
Net change in fair value of Preferred units		-	-	(73,940)	-	-	(73,940)
Tax impact of change in fair value		-	-	128,800	-	-	128,800
Foreign currency translation differences		-	-	-	(143,281)	-	(143,281)
<b>Total other comprehensive income</b>		-	-	54,860	(143,281)	-	(88,421)
<b>Total comprehensive income for the period</b>		\$-	\$-	\$54,860	(143,281)	\$20,704,196	\$20,615,775
<b>Transactions with shareholders of the Company, recognized directly in equity</b>							
<b>Contributions by and distributions to shareholders of the Company</b>							
Non-cash stock based compensation	7	\$-	\$1,833,142	\$-	\$-	\$-	\$1,833,142
Dividends to shareholders	5	-	-	-	-	(21,232,830)	(21,232,830)
Options exercised in the period	5	5,981	(528)	-	-	-	5,453
Shares issued in the period	5	87,417,135	-	-	-	-	87,417,135
Share issue costs, net of tax	5	(3,362,991)	-	-	-	-	(3,362,989)
Payments in lieu of dividends on RSUs	7	-	-	-	-	(174,595)	(174,595)
<b>Total transactions with Shareholders of the Company</b>		84,060,125	1,832,614	-	-	(21,407,425)	64,485,316
Balance at June 30, 2014		\$497,297,701	\$7,520,693	\$(4,829,091)	\$1,058,602	\$13,812,360	\$514,860,265

## Alaris Royalty Corp.

Condensed consolidated statement of cash flows (unaudited)

For the six months ended June 30

	Note	2014	2013
<b>Cash flows from operating activities</b>			
Earnings from the period		\$20,704,196	\$24,341,631
Adjustments for:			
Finance costs		2,041,212	946,638
Deferred income tax expense		1,129,800	5,517,000
Depreciation and amortization		54,315	52,855
Unrealized foreign exchange loss/(gain)		133,017	(1,251,210)
(Gain)/Loss on forward contracts		(315,906)	489,002
(Gain)/Loss on reduction of partner interests		-	(13,052,160)
Non-cash stock based compensation	7	1,833,142	1,477,760
		<u>25,579,776</u>	<u>18,521,516</u>
Change in:			
-trade and other receivables		(1,745,412)	(283,349)
-prepayments		(1,192,740)	61,613
-trade and other payables		2,434,627	1,354,597
		<u>25,076,251</u>	<u>19,654,377</u>
<b>Cash generated from operating activities</b>		<u>25,076,251</u>	<u>19,654,377</u>
Interest paid		(2,041,212)	(946,638)
		<u>\$23,035,039</u>	<u>\$18,707,739</u>
<b>Cash flows from investing activities</b>			
Acquisition of equipment		(47,674)	-
Acquisition/disposition of Preferred LP Units	4	(38,872,862)	(125,780,890)
Proceeds from reduction in Preferred LP Units		-	30,000,000
		<u>\$(38,920,536)</u>	<u>\$(95,780,890)</u>
<b>Cash flows from financing activities</b>			
New share capital, net of share issue costs	5	82,933,144	55,821,490
Proceeds from exercise of options	5	5,453	2,332,603
Borrowing of senior debt	6	37,700,000	118,000,000
Repayment of senior debt	6	(82,200,000)	(72,000,000)
Promissory notes issued	4	(50,000)	(9,605,000)
Promissory notes repaid	4	1,000,000	-
Dividends paid	5	(20,676,546)	(15,538,172)
Payments in lieu of dividends on RSUs	7	(174,595)	(129,263)
		<u>\$18,537,456</u>	<u>\$78,881,658</u>
<b>Net increase in cash and cash equivalents</b>		<u>2,651,959</u>	<u>1,808,507</u>
Cash and cash equivalents, Beginning of period		8,998,342	3,638,255
<b>Cash and cash equivalents, End of period</b>		<u>\$11,650,301</u>	<u>\$5,446,762</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 and six months ended June 30, 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 interests 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

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 31 - "Interim Financial Reporting". The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. These interim financial statements should be read in conjunction with the audited financial statements and accompanying notes disclosed in the Corporation's annual report for the year ended December 31, 2013. These interim financial statements were approved by the Board of Directors on July 24, 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 has the United States dollar, while Alaris Cooperatief has the Canadian dollar as their 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. Subsequent to filing the notice of objection, Alaris received an additional proposal from the CRA pursuant to which the CRA is proposing to apply the general anti avoidance rule to deny the use of non-capital losses, accumulated scientific research and experimental development expenditures and investment tax credits for taxation years from 2006 through to 2012. The proposal does not impact the Corporation's previously disclosed assessment of the total potential tax liability (including interest) or the deposits required to be paid in order to dispute the CRA's reassessment. 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 it will be successful in appealing such Reassessment. The Corporation intends to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amount as a deposit to the Canada Revenue Agency. During the first six 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.

During the preparation of the December 31, 2013 income tax returns, the Corporation determined that the deferred income tax provision had been performed incorrectly for the year ended December 31, 2012 and the year ended December 31, 2013. The impact of the error is that the deferred income tax asset was understated and the deferred income tax expense was overstated in the years ended December 31, 2012 and December 31, 2013 by \$984,400 and \$1,333,000, respectively. These errors have been corrected by recording an out of period adjustment in the three and six months periods ended June 30, 2014. Therefore the deferred income tax expense for the three and six month periods ended June 30, 2014 has been decreased by \$984,400 and \$1,333,000, respectively, and the deferred tax asset has been increased by \$2,317,400 to correct for the error.



#### 4. Investments

##### Preferred LP and LLC Units:

June 30, 2014	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LifeMark Health	\$ 19,502,159	\$ 499,894	\$ 20,002,053	\$ 36,920,000
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	589,147	55,389,147	55,461,153
Killick	41,250,000	257,544	41,507,544	44,800,000
Quetico	27,211,050	860,337	28,071,387	28,071,387
Labstat	47,200,000	518,944	47,718,944	45,718,944
Agility	21,448,710	712,818	22,161,528	22,161,527
SHS	15,000,000	512,014	15,512,014	-
SCR	40,000,000	487,339	40,487,339	40,487,339
Sequel	70,428,600	593,111	71,021,711	71,021,711
SMi	30,000,000	717,310	30,717,310	30,717,310
Kimco	31,159,320	932,198	32,091,518	32,091,518
	\$ 484,728,661	\$ 7,525,189	\$ 492,253,850	\$ 472,579,712
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 June 30, 2014 is due to foreign currency translation.

The Corporation holds intangible assets as follows:

June 30, 2014	Acquisition Cost	Capitalized Cost	Accumulated Amortization	Net Cost
End of the Roll	\$ 7,200,000	\$ 74,920	\$ (841,124)	\$ 6,433,796
December 31, 2013				
End of the Roll	\$ 7,200,000	\$ 74,920	\$ (795,655)	\$ 6,479,265

#### 4. Investments (continued):

##### Investment Kimco Holdings, LLC (“Kimco”):

The Corporation holds 10,000 Class C preferred LLC units in Kimco acquired on June 6, 2014 for \$29.2 million USD.

Pursuant to the LLC agreement dated June 6, 2014, the Kimco units entitle the Corporation to receive an annual preferred distribution of \$4,672,000 USD in priority to distributions on Kimco’s other LLC units in an amount equal to the preferred

distribution for the prior fiscal year multiplied by the percentage increase or decrease in Kimco’s gross revenues for the previous fiscal year. Distributions on the Kimco units are receivable monthly.

Kimco has the option at any time after June 6, 2017 to repurchase the units at a pre-negotiated premium to the original purchase price.

##### Reduction of interest in LifeMark Health

In the prior year, during the three months ended June 30, 2013, the Corporation received \$30 million of proceeds from LifeMark Health for a reduction in the Corporation’s interest in LifeMark. The reduction resulted in a decrease to the annual distributions from LifeMark from \$7,020,000 to \$3,956,880 (increased to \$4,115,155 effective June 2014). The remainder of the units (\$36.92 million) can be repurchased anytime with 30-days notice with the repurchase price increasing by 4% effective in June of each year.

The Corporation received royalties and distributions as follows:

<b>Royalties and distributions:</b>						
	Three months ended June 30		Six months ended June 30			
	2014	2013	2014	2013		
Sequel	\$ 2,698,493	\$ -	\$ 5,429,160	\$ -		
KMH	1,888,750	2,067,303	3,956,053	4,134,606		
Killick	1,678,272	1,442,088	3,356,545	2,884,176		
SCR	1,600,000	673,607	3,200,000	673,607		
Labstat	1,355,501	1,545,000	2,211,002	3,090,000		
Solowave	1,206,036	1,165,600	2,412,072	2,331,200		
Group SM	1,200,000	-	2,400,000	-		
LifeMark	1,002,421	1,236,508	1,991,653	2,991,508		
Quetico	971,614	1,195,981	2,066,803	2,374,435		
Agility	883,579	511,650	1,778,900	1,015,800		
LMS	830,750	623,925	1,673,795	1,208,874		
Kimco	334,940	-	334,940	-		
End of the Roll	269,854	276,914	596,329	612,126		
SHS	-	625,000	-	826,074		
	\$ 15,920,210	\$ 11,363,576	\$ 31,407,252	\$ 22,142,406		

#### 4. Investments (continued):

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 June 30, 2014, the following is a summary of the outstanding loans:

<b>Partner</b>	<b>June 30, 2014</b>		<b>Dec 31, 2013</b>	
<b>Current</b>				
LMS	\$	2,000,000	\$	3,000,000
KMH		3,500,000		3,500,000
SHS		2,050,000		2,000,000
Total Current	\$	7,550,000	\$	8,500,000
<b>Non-Current</b>				
Labstat		6,915,000		6,915,000
Total	\$	14,465,000	\$	15,415,000

The terms of the various notes differ as a portion of the Labstat notes can be converted to preferred units, but not until 2015; and the SHS note is secured against certain assets of the SHS business. During the three months ended June 30, 2014, LMS repaid \$1,000,000.

#### 5. Share capital:

In the six months ended June 30, 2014, the Corporation issued: 3,274,050 shares by way of a short form prospectus for gross proceeds of \$87,417,135; 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, 31,996,221 voting common shares as at June 30, 2014.

##### **Dividends**

The following dividends were declared and paid by the Corporation:

In each of the first five months in 2014, the Corporation declared a dividend of \$0.12 per common share and in June the Corporation declared a dividend of \$0.125 per common share (in aggregate \$0.725 per common share and \$21,232,830). For the six months ended June 30, 2013, total dividends of \$0.64 per common share were declared for \$16,091,867.

#### 6. Debt:

The Corporation has an \$85,100,000 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. There are financial covenants under this facility and at June 30, 2014, the Corporation is in compliance with each of the covenants. During the three months ending June 30, 2014, the Corporation borrowed \$31.7 million for the acquisition of LLC units in Kimco and then repaid the entire \$82.2 million outstanding on June 25, 2014 with proceeds from an equity offering leaving a balance of \$nil at June 30, 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 574,443 and issued 238,207 RSUs to management and Directors as of June 30, 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 and six months ended June 30, 2014, the Corporation incurred stock-based compensation expenses of \$1,110,080 and \$1,833,142 (2013 - \$748,061 and \$1,477,760) which includes: \$442,666 and \$878,692 (non-cash expense) for the portion of the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2013 - \$356,066 and \$698,078); and \$667,414 and \$954,450 (non-cash expense) for the portion of the amortization of the fair value of outstanding stock options (2013 - \$391,995 and \$779,682). The Corporation has reserved 2,223,305 and issued 1,796,248 options that vest over a four-year period and expire in five years.

The options outstanding at June 30, 2014, have an exercise price in the range of \$7.27 to \$33.87 and a weighted average contractual life of 3.1 years (2013 – 3.4 years).

## 8. Fair Value of Financial Instruments

The Corporation's financial instruments as at June 30, 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.

## 8. Fair Value of Financial Instruments (continued):

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 June 30, 2014 and December 31, 2013, are measured at fair value on a recurring basis using level 1 or level 2 inputs. The

The Corporation has no level 3 items and during the period ended June 30, 2014 there were no transfers between level 1 or level 2 classified assets and liabilities.

<b>June 30, 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Foreign exchange contracts	\$ -	\$ (317,896)	\$ (317,896)
Preferred LP and LLC units	-	472,579,712	472,579,712
	\$ -	\$ 472,261,816	\$ 472,261,816
<b>December 31, 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
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	\$ 87,948
2015	175,896
2016	161,238
	\$ 425,082