

Unaudited Condensed Consolidated Interim Financial  
Statements of

**ALARIS ROYALTY CORP.**

For the three and nine months ended September 30, 2012

## Alaris Royalty Corp.

Condensed consolidated interim statement of financial position (unaudited)

		September 30	December 31
	Note	2012	2011
<b>Assets</b>			
Cash and cash equivalents		\$4,863,430	\$3,888,465
Prepayments		109,023	119,508
Trade and other receivables		258,622	3,443,679
<b>Current Assets</b>		<b>5,231,075</b>	<b>7,451,652</b>
Promissory note receivable	4	1,250,000	-
Equipment		64,515	66,743
Intangible assets	4	6,592,935	6,661,138
Preferred LP Units	4	250,574,564	207,408,290
Investment tax credit receivable		10,922,393	10,922,393
Deferred income taxes		11,072,185	13,967,984
<b>Non-current assets</b>		<b>280,476,592</b>	<b>239,026,548</b>
<b>Total Assets</b>		<b>\$285,707,667</b>	<b>\$246,478,200</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities		\$1,221,438	\$1,546,705
Dividends payable		2,233,664	1,850,145
Income taxes payable		4,141	67,590
Loans and borrowings	6	625,000	-
<b>Current Liabilities</b>		<b>4,084,243</b>	<b>3,464,440</b>
Loans and borrowings	6	1,875,000	6,500,000
<b>Non-current liabilities</b>		<b>1,875,000</b>	<b>6,500,000</b>
<b>Total Liabilities</b>		<b>\$5,959,243</b>	<b>\$9,964,440</b>
<b>Equity</b>			
Share capital	5	\$252,011,961	\$200,822,160
Equity reserve		2,176,863	4,626,500
Fair value reserve		2,336,689	2,292,939
Translation reserve		(452,440)	(124,947)
Retained earnings		23,675,351	28,897,108
<b>Total Equity</b>		<b>\$279,748,424</b>	<b>\$236,513,760</b>
<b>Total Liabilities and Equity</b>		<b>\$285,707,667</b>	<b>\$246,478,200</b>

Commitments

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## Alaris Royalty Corp.

Condensed consolidated interim statement of comprehensive income (unaudited)

	Note	Three months ended Sept 30		Nine months ended Sept 30	
		2012	2011	2012	2011
<b>Revenues</b>					
Royalties and distributions	4	\$8,676,756	\$4,842,028	\$22,945,958	\$15,712,932
Interest and other		115,528	24,847	122,888	38,624
Gain on reduction of partner interests		-	-	-	23,815,973
Gain on sale of intangible assets		-	-	-	3,891,560
<b>Total Revenue</b>		<b>8,792,284</b>	<b>4,866,875</b>	<b>23,068,846</b>	<b>43,459,089</b>
Salaries and benefits		73,248	225,402	1,524,798	1,661,409
Corporate and office		254,772	124,180	768,566	592,331
Legal and accounting fees		519,446	120,658	1,048,445	377,676
Non-cash stock-based compensation	7	461,436	559,932	1,160,413	1,591,350
Depreciation and amortization		26,908	26,713	80,265	116,343
<b>Subtotal</b>		<b>1,335,810</b>	<b>1,056,885</b>	<b>4,582,487</b>	<b>4,339,109</b>
<b>Earnings from operations</b>		<b>7,456,474</b>	<b>3,809,990</b>	<b>18,486,359</b>	<b>39,119,980</b>
Finance cost		75,196	35,374	698,220	878,767
Unrealized foreign exchange loss		600,533	-	567,161	-
<b>Earnings before taxes</b>		<b>6,780,745</b>	<b>3,774,616</b>	<b>17,220,978</b>	<b>38,241,213</b>
Current income tax expense		266,939	-	536,937	-
Deferred income tax expense		1,645,452	1,053,375	3,579,641	9,897,408
<b>Earnings</b>		<b>\$4,868,354</b>	<b>\$2,721,241</b>	<b>\$13,104,400</b>	<b>\$28,343,805</b>
<b>Other comprehensive income</b>					
Net change in fair value of available-for-sale financial assets		-	-	50,000	2,280,975
Tax impact of change in fair value		-	-	(6,250)	(285,122)
Realized gain on reduction of partnership interest		-	-	-	(24,015,973)
Tax impact of realized gain		-	-	-	3,001,997
Foreign currency translation differences		(356,295)	-	(327,493)	-
<b>Other comprehensive income for the period, net of income tax</b>		<b>(356,295)</b>	<b>-</b>	<b>(283,743)</b>	<b>(19,018,123)</b>
<b>Total comprehensive income for the period</b>		<b>\$4,512,059</b>	<b>\$2,721,241</b>	<b>\$12,820,657</b>	<b>\$9,325,682</b>
<b>Earnings per share</b>					
Basic earnings per share		\$0.22	\$0.16	\$0.64	\$1.68
Fully diluted earnings per share		\$0.21	\$0.16	\$0.63	\$1.62
<b>Weighted average shares outstanding</b>					
Basic		22,306,832	16,931,101	20,464,201	16,886,518
Fully Diluted		22,824,718	17,540,118	20,900,401	17,443,434

## Alaris Royalty Corp.

Condensed consolidated interim statement of changes in equity (unaudited)

For the nine months ended September 30, 2011

	Notes	Share capital	Warrants	Equity reserve	Fair value Reserve	Retained Earnings	Total Equity
Balance at January 1, 2011		\$157,402,328	\$405,306	\$3,174,831	\$22,350,157	\$12,451,862	\$195,784,484
<b>Total comprehensive income for the period</b>							
<b>Earnings for the period</b>		-	-	-	-	28,343,805	28,343,805
<b>Other comprehensive income</b>							
Net change in fair value of available-for-sale financial assets		-	-	-	2,280,975	-	2,280,975
Tax impact of fair value adjustment					(285,122)		(285,122)
Realized gain on reduction of partnership interest		-	-	-	(24,015,973)	-	(24,015,973)
Tax impact of realized gain		-	-	-	3,001,997	-	3,001,997
<b>Total other comprehensive income</b>		-	-	-	(19,018,123)	-	(19,018,123)
<b>Total comprehensive income for the period</b>		\$-	\$-	\$-	\$(19,018,123)	\$28,343,805	\$9,325,682
<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	-	-	1,480,201	-	-	1,480,201
Warrants exercised in the period		\$3,808,500	\$-	\$-	\$-	\$-	\$3,808,500
Fair value of warrants exercised in the period		373,123	(373,123)	-	-	-	-
Tax value of share issue costs	5	1,138	-	-	-	-	1,138
Dividends to shareholders	5	-	-	-	-	(12,940,016)	(12,940,016)
Options exercised in the period	5	9,087	-	-	-	-	9,087
Payments in lieu of dividends on RSUs	7	-	-	-	-	(182,898)	(182,898)
Shares issued in lieu of dividends on RSUs	7	111,150	-	-	-	-	111,150
<b>Total transactions with Shareholders of the Company</b>		4,302,998	(373,123)	1,480,201	-	(13,122,914)	(7,712,838)
Balance at September 30, 2011		\$161,705,326	\$32,183	\$4,655,032	\$3,332,034	\$27,672,753	\$197,397,328

## Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the nine months ended September 30, 2012

	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2012		\$200,822,160	\$4,626,500	\$2,292,939	\$(124,947)	\$28,897,108	\$236,513,760
<b>Total comprehensive income for the period</b>							
<b>Earnings for the period</b>		-	-	-	-	13,104,400	13,104,400
<b>Other comprehensive income</b>							
Net change in fair value of available-for-sale financial assets		-	-	50,000	-	-	50,000
Tax impact of change in fair value		-	-	(6,250)	-	-	(6,250)
Foreign currency translation differences		-	-	-	(327,493)	-	(327,493)
<b>Total other comprehensive income</b>		-	-	43,750	(327,493)	-	(283,743)
<b>Total comprehensive income for the period</b>		\$-	\$-	\$43,750	\$(327,493)	\$13,104,400	\$12,820,657
<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	\$-	\$1,063,819	\$-	\$-	\$-	\$1,063,819
Dividends to shareholders	5	-	-	-	-	(18,147,204)	(18,147,204)
Shares issued in the period		49,042,500	-	-	-	-	49,042,500
Share issue costs, net of tax	5	(2,070,255)	-	-	-	-	(2,070,255)
Options exercised in the period	5,7	607,500	-	-	-	-	607,500
Fair value of options exercised in the period		65,656	(65,656)	-	-	-	-
RSUs vested in the period	5,7	3,447,800	(3,447,800)	-	-	-	-
Payments in lieu of dividends on RSUs	7	-	-	-	-	(178,953)	(178,953)
Shares issued in lieu of dividends on RSUs	7	96,600	-	-	-	-	96,600
<b>Total transactions with Shareholders of the Company</b>		51,189,801	(2,446,637)	-	-	(18,326,157)	30,414,007
Balance at September 30, 2012		\$252,011,961	\$2,176,863	\$2,336,689	\$(452,440)	\$23,675,351	\$279,748,424

## Alaris Royalty Corp.

Condensed consolidated statement of cash flows (unaudited)

For the nine months ended September 30

	Note	2012	2011
<b>Cash flows from operating activities</b>			
Earnings from the period		\$13,104,400	\$28,343,805
Adjustments for:			
Finance costs		698,220	878,767
Deferred income tax expense		3,579,641	9,897,408
Depreciation and amortization		80,265	116,343
Unrealized foreign exchange loss		567,161	-
Gain on forward contracts		(122,888)	-
Gain on intangible asset sale and reduction of partnership interest		-	(27,707,533)
Non-cash stock based compensation	7	1,160,413	1,591,350
		<u>19,067,212</u>	<u>13,120,140</u>
Change in:			
-trade and other receivables		3,312,167	111,083
-prepayments		10,485	286,176
-trade and other payables		(388,716)	(254,257)
<b>Cash generated from operating activities</b>		<u>22,001,148</u>	<u>13,263,142</u>
Interest paid		(698,220)	(878,767)
<b>Net cash from operating activities</b>		<u>\$21,302,928</u>	<u>\$12,384,375</u>
<b>Cash flows from investing activities</b>			
Acquisition of equipment		(9,835)	(7,232)
Acquisition/disposition of Preferred LP Units		(44,015,150)	(28,434,180)
Proceeds from reduction in Preferred LP Units		-	65,000,000
<b>Net cash from/(used in) investing activities</b>		<u>\$(44,024,985)</u>	<u>\$36,558,588</u>
<b>Cash flows from financing activities</b>			
New share capital	5	49,042,500	-
Share issue costs	5	(2,760,340)	-
Proceeds from exercise of warrants		-	3,808,500
Proceeds from exercise of options	5,7	607,500	9,087
Borrowing of senior debt	6	45,000,000	-
Repayment of senior debt	6	(49,000,000)	(29,200,000)
Promissory notes issued	4	1,250,000	-
Dividends paid	5	(17,763,685)	(12,896,077)
Payments in lieu of dividends on RSUs	7	(178,953)	(182,898)
<b>Net cash used in financing activities</b>		<u>\$23,697,022</u>	<u>\$(38,461,388)</u>
<b>Net increase in cash and cash equivalents</b>		974,965	10,481,575
Cash and cash equivalents, Beginning of period		3,888,465	1,816,868
<b>Cash and cash equivalents, End of period</b>		<u>\$4,863,430</u>	<u>\$12,298,443</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 nine months ended September 30, 2012 comprises 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 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.

## 2. Statement of compliance:

### (a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34.

These condensed consolidated interim financial statements were approved by the Board of Directors on November 1, 2012.

### (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.

### (d) Use of estimates

The preparation of the condensed consolidated interim financial statements in conformity with IAS 34 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.

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.

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:

## 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.

### **Utilization of tax losses**

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

## 3. Significant accounting policies:

These condensed consolidated interim financial statements were prepared on the same basis as that applies in the audited financial statements for the year ending December 31, 2011.

## 4. Investments

### **Available for sale financial assets:**

<b>September 30, 2012</b>	<b>Acquisition Cost</b>	<b>Capitalized Cost</b>	<b>Net Cost</b>	<b>Fair Value</b>
LifeMark Health	\$ 36,450,000	\$ 499,894	\$ 36,949,894	\$ 65,500,000
LMS	51,000,000	333,280	51,333,280	25,800,000
Solowave	32,500,000	511,253	33,011,253	31,500,000
KMH	29,600,000	467,995	30,067,995	30,140,000
Killick	27,250,000	257,544	27,507,544	28,600,000
Quetico	26,458,423	860,337	27,318,760	27,318,760
Labstat	41,200,000	515,804	41,715,804	41,715,804
	<b>\$ 244,458,423</b>	<b>\$ 3,446,107</b>	<b>\$ 247,904,530</b>	<b>\$ 250,574,564</b>
<b>December 31, 2011</b>				
LifeMark Health	\$ 36,450,000	\$ 499,894	\$ 36,949,894	\$ 65,500,000
LMS	51,000,000	333,280	51,333,280	25,300,000
Solowave	32,500,000	511,253	33,011,253	33,050,000
KMH	27,400,000	427,995	27,827,995	27,900,000
Killick	27,250,000	257,544	27,507,544	27,500,000
Quetico	27,357,300	800,990	28,158,290	28,158,290
	<b>\$ 201,957,300</b>	<b>\$ 2,830,956</b>	<b>\$ 204,788,256</b>	<b>\$ 207,408,290</b>

The difference in the acquisition cost of Quetico at December 31, 2011 and September 30, 2012 is due to foreign currency translation. The difference in the acquisition cost of KMH for the same period is due to the purchase of additional preferred units for an aggregate acquisition cost of \$2,200,000 in August 2012.



#### 4. Investments (continued)

##### Intangible assets:

The Corporation holds intangible assets as follows:

	Acquisition Cost		Capitalized Cost		Accumulated Amortization		Net Cost	
<b>September 30, 2012</b>								
End of the Roll	\$	7,200,000	\$	74,920	\$	(681,985)	\$	6,592,935
<b>December 31, 2011</b>								
End of the Roll	\$	7,200,000	\$	74,920	\$	(613,782)	\$	6,661,138

The Corporation received royalties and distributions as follows:

<b>Royalties and distributions:</b>								
	Three months ended Sept 30			Nine months ended Sept 30				
	2012	2011		2012	2011			
LifeMark Health	\$	1,755,000	\$	1,687,500	\$	5,130,000	\$	7,537,276
Labstat		1,592,775		-		2,017,103		-
Solowave		1,240,000		1,250,000		3,720,000		3,750,000
KMH		1,139,713		218,587		3,238,859		662,480
Killick		1,108,324		1,005,645		3,258,324		1,005,645
Quetico		1,057,058		-		3,193,987		-
LMS		508,000		422,688		1,495,047		1,256,261
End of the Roll		275,886		257,708		892,638		970,302
MEDlchair		-		-		-		530,968
	\$	8,676,756	\$	4,842,028	\$	22,945,958	\$	15,712,932

Investment in Labstat International, LP ("Labstat"):

The Corporation holds 4,120,000 Preferred partnership units in Labstat acquired on June 6, 2012 for \$41.2 million.

Pursuant to the partnership agreement dated June 6, 2012, the Labstat units entitle the Corporation to receive an annual preferred distribution in priority to distributions on Labstat's other partnership units in an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in Labstat's gross revenues for the previous fiscal year. Distributions on the Labstat units are receivable monthly.

Labstat has the option at any time after June 6, 2015 to repurchase all (but not less than all) of the units at a pre-negotiated premium to the original purchase price.

The Corporation also issued a promissory note for \$1.25 million that will earn interest at 15% and at Labstat's option, can be repaid or converted into additional Labstat units on identical terms of the initial acquisition. The note is included in Non-current assets.

## **5. Share capital:**

In the three months ended September 30, 2012, the Corporation issued 706 shares for a value of \$13,800 under the Restricted Share Unit (“RSU”) Plan and issued 50,625 shares for options exercised in the period.

The Corporation has authorized, issued and outstanding, 22,336,642 voting common shares as at September 30, 2012.

### ***Dividends***

The following dividends were declared and paid by the Corporation:

In each of the first five months in 2012, the Corporation declared a dividend of \$0.095 per common share and in June through September declared a dividend of \$0.10 per share (\$18,147,204 in aggregate). For each of the nine months ended September 30, 2011, dividends of \$0.085 per common share were declared (\$12,940,016 in aggregate).

## **6. Loans and borrowings:**

The Corporation has a \$50,100,000 secured revolving credit facility with a syndicate of Canadian chartered banks. The term out date under the credit facility is December 31, 2012. If monies are drawn, and if an extension is not received by December 31, 2012, the facility will be repaid in thirty-six equal monthly installments commencing January 31, 2013. There are financial covenants under this facility and at September 30, 2012, the Corporation is in compliance with each of the covenants.

## **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 720,886 and issued 144,081 RSUs to management and Directors as of September 30, 2012. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (111,431) vest in three years 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 accordance with the Corporation’s dividend policy.

## 7. Share-based payments (continued)

For the three and nine months ended September 30, 2012, the Corporation incurred stock-based compensation expenses of \$461,436 and \$1,160,413 (2011 - \$559,932 and \$1,591,350) which includes: \$168,318 and \$364,267 (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 (2011 - \$367,871 and \$1,091,616); \$13,800 and \$96,600 (non-cash expense) for shares issued in the period in lieu of dividends under the RSU Plan (2011 - \$37,050 and \$111,150); and \$279,318 and \$699,546 (non-cash expense) for the portion of the amortization of the fair value of outstanding stock options (2011 - \$155,011 and \$388,584). The Corporation has reserved 1,507,715 and issued 1,406,161 options that vest over a four-year period and expire in five years.

The options outstanding at September 30, 2012, have an exercise price in the range of \$7.27 to \$23.53 and a weighted average contractual life of 3.74 years (2011 – 3.70 years).

## 8. 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:

2012	\$	40,406
2012		166,354
2013		166,354
2014		166,354
2016		152,491
	\$	691,959