



Unaudited Condensed Consolidated Interim Financial
Statements of

ALARIS ROYALTY CORP.

For the three and six months ended June 30, 2012

Alaris Royalty Corp.

Condensed consolidated statement of financial position (unaudited)

	Note	June 30 2012	December 31 2011
Assets			
Cash and cash equivalents		\$4,892,646	\$3,888,465
Prepayments		62,397	119,508
Trade and other receivables		251,756	3,443,679
Current Assets		5,206,799	7,451,652
Promissory note receivable		1,250,000	-
Equipment		66,271	66,743
Intangible assets	4	6,615,669	6,661,138
Preferred LP Units	4	249,288,757	207,408,290
Investment tax credit receivable		10,922,393	10,922,393
Deferred income taxes		12,689,362	13,967,984
Non-current assets		280,832,452	239,026,548
Total Assets		\$286,039,251	\$246,478,200
Liabilities			
Accounts payable and accrued liabilities		\$2,378,672	\$1,546,705
Dividends payable		2,199,466	1,850,145
Income taxes payable		102,018	67,590
Loans and borrowings	6	83,333	-
Current Liabilities		4,763,489	3,464,440
Loans and borrowings	6	416,667	6,500,000
Non-current liabilities		416,667	6,500,000
Total Liabilities		\$5,180,156	\$9,964,440
Equity			
Share capital	5	\$247,943,285	\$200,822,160
Equity reserve		5,242,677	4,626,500
Fair value reserve		2,330,439	2,292,939
Translation reserve		(96,145)	(124,947)
Retained Earnings		25,438,839	28,897,108
Total Equity		\$280,859,095	\$236,513,760
Total Liabilities and Equity		\$286,039,251	\$246,478,200

Commitments

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Alaris Royalty Corp.

Condensed consolidated statement of comprehensive income (unaudited)

	Note	Three months ended June 30		Six months ended June 30	
		2012	2011	2012	2011
Revenues					
Royalties and distributions	4	\$ 7,337,772	\$ 5,235,584	\$ 14,268,991	\$ 10,870,903
Interest and other		(99,175)	13,778	7,360	13,778
Gain on reduction of partner interests		-	23,815,973	-	23,815,973
Gain on sale of intangible assets		-	3,891,560	-	3,891,560
Total Revenue		7,238,597	32,956,895	14,276,351	38,592,214
Salaries and benefits		1,218,740	1,212,670	1,451,550	1,436,007
Corporate and office		216,745	191,012	513,372	468,151
Legal and accounting fees		343,672	130,518	528,998	243,568
Non-cash stock-based compensation	7	349,488	518,353	698,977	1,031,418
Depreciation and amortization		26,818	42,459	53,357	89,631
Subtotal		2,155,463	2,095,012	3,246,254	3,268,775
Earnings from operations		5,083,134	30,861,883	11,030,097	35,323,439
Finance cost		496,846	423,994	623,025	843,393
Unrealized foreign exchange (gain)/loss		(335,812)	-	(27,525)	-
Earnings before taxes		4,922,100	30,437,889	10,434,597	34,480,046
Current income tax expense		228,890	-	365,563	-
Deferred income tax expense		533,231	7,727,380	1,934,189	8,844,033
Earnings		\$ 4,159,979	\$ 22,710,509	\$ 8,134,845	\$ 25,636,013
Other comprehensive income					
Net change in fair value of available-for-sale financial assets		50,000	544,429	50,000	2,280,975
Tax impact of change in fair value		(12,500)	(68,054)	(12,500)	(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
Foreign currency translation differences		238,418	-	28,802	-
Other comprehensive income for the period, net of income tax		275,918	(20,537,601)	66,302	(19,018,123)
Total comprehensive income for the period		\$ 4,435,897	\$ 2,172,908	\$ 8,201,147	\$ 6,617,890
Earnings per share					
Basic earnings per share		\$0.21	\$1.34	\$0.42	\$1.52
Fully diluted earnings per share		\$0.20	\$1.30	\$0.40	\$1.47
Weighted average shares outstanding					
Basic		19,589,153	16,913,163	19,532,881	16,863,856
Fully Diluted		20,301,799	17,492,075	20,214,649	17,419,316

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the six months ended June 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
Total comprehensive income for the period							
Earnings for the period		-	-	-	-	25,636,013	25,636,013
Other comprehensive income							
Net change in fair value of available-for-sale financial assets		-	-	-	2,280,975	-	2,280,975
Tax impact of change in fair value					(285,122)		(285,122)
Non-cash stock based compensation		-	-	957,319	-	-	957,319
Tax value of share issue costs		1,138	-	-	-	-	1,138
Realized gain on reduction of partnership interest		-	-	-	(24,015,973)	-	(24,015,973)
Tax impact of realized gain		-	-	-	3,001,997	-	3,001,997
Total other comprehensive income		1,138	-	957,319	(19,018,123)	-	(18,059,666)
Total comprehensive income for the period		\$1,138	\$-	\$957,319	\$(19,018,123)	\$25,636,013	\$7,576,347
Transactions with shareholders of the Company, recognized directly in equity							
Contributions by and distributions to shareholders of the Company							
Warrants exercised in the period		\$3,633,000	\$-	\$-	\$-	\$-	\$3,633,000
Fair value of warrants exercised in the period		355,929	(355,929)	-	-	-	-
Dividends to shareholders	5	-	-	-	-	(8,621,337)	(8,621,337)
Payments in lieu of dividends on RSUs	7	-	-	-	-	(121,933)	(121,933)
Shares issued in lieu of dividends on RSUs	7	74,100	-	-	-	-	74,100
Total transactions with Shareholders of the Company		4,063,029	(355,929)	-	-	(8,743,270)	(5,036,170)
Balance at June 30, 2011		\$161,466,495	\$49,377	\$4,132,150	\$3,332,034	\$29,344,605	\$198,324,661

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the six months ended June 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
Total comprehensive income for the period							
Earnings for the period		-	-	-	-	8,134,845	8,134,845
Other comprehensive income							
Net change in fair value of available-for-sale financial assets		-	-	50,000	-	-	50,000
Tax impact of change in fair value		-	-	(12,500)	-	-	(12,500)
Foreign currency translation differences		-	-	-	28,802	-	28,802
Total other comprehensive income		-	-	37,500	28,802	-	66,302
Total comprehensive income for the period		\$-	\$-	\$37,500	\$28,802	\$8,134,845	\$8,201,147
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	\$-	\$616,177	\$-	\$-	\$-	\$616,177
Dividends to shareholders	5	-	-	-	-	(11,451,274)	(11,451,274)
Shares issued in the period		49,042,500	-	-	-	-	49,042,500
Share issue costs, net of tax	5	(2,004,175)	-	-	-	(5,545)	(2,009,720)
Payments in lieu of dividends on RSUs	7	-	-	-	-	(136,295)	(136,295)
Shares issued in lieu of dividends on RSUs	7	82,800	-	-	-	-	82,800
Total transactions with Shareholders of the Company		47,121,125	616,177	-	-	(11,593,114)	36,144,188
Balance at June 30, 2012		\$247,943,285	\$5,242,677	\$2,330,439	\$(96,145)	\$25,438,839	\$280,859,095

Alaris Royalty Corp.

Condensed consolidated statement of cash flows (unaudited)

For the six months ended June 30

	Note	2012	2011
Cash flows from operating activities			
Earnings from the period		\$8,134,845	\$25,636,013
Adjustments for:			
Finance costs		623,025	843,393
Deferred income tax expense		1,934,189	8,844,033
Depreciation and amortization		53,357	89,631
Unrealized foreign exchange loss/(gain)		(27,525)	-
Gain on forward contracts		(7,360)	-
Gain on intangible asset sale and reduction of partnership interest		-	(27,707,533)
Non-cash stock based compensation	7	698,977	1,031,418
		<u>11,409,508</u>	<u>8,736,955</u>
Change in:			
-trade and other receivables		3,194,749	649,010
-prepayments		57,111	286,176
-trade and other payables		866,395	460,722
Cash generated from operating activities		<u>15,527,763</u>	<u>10,132,863</u>
Interest paid		(623,025)	(843,393)
Net cash from operating activities		<u>\$14,904,738</u>	<u>\$9,289,470</u>
Cash flows from investing activities			
Acquisition of equipment		(7,417)	(5,104)
Acquisition/disposition of Preferred LP Units		(41,775,150)	(670,145)
Proceeds from reduction in Preferred LP Units		-	65,000,000
Net cash from/(used in) investing activities		<u>\$(41,782,567)</u>	<u>\$64,324,751</u>
Cash flows from financing activities			
New share capital	5	49,042,500	-
Share issue costs	5	(2,672,241)	-
Proceeds from exercise of warrants		-	3,633,000
Borrowing of senior debt	6	43,000,000	-
Repayment of Senior debt	6	(49,000,000)	(29,200,000)
Promissory notes issued		1,250,000	-
Dividends paid	5	(11,101,954)	(8,579,697)
Payments in lieu of dividends on RSUs	7	(136,295)	(121,932)
Net cash used in financing activities		<u>\$27,882,010</u>	<u>(\$34,268,629)</u>
Net increase in cash and cash equivalents		<u>1,004,181</u>	<u>39,345,592</u>
Cash and cash equivalents, Beginning of period		<u>3,888,465</u>	<u>1,816,868</u>
Cash and cash equivalents, End of period		<u>\$4,892,646</u>	<u>\$41,162,460</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, 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 July 26, 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 of the audited financial statements for the year ending December 31, 2011.

4. Investments

Available for sale financial assets:

June 30, 2012	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
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	27,400,000	427,995	27,827,995	27,900,000
Killick	27,250,000	257,544	27,507,544	28,600,000
Quetico	27,412,616	860,337	28,272,953	28,272,953
Labstat	41,200,000	515,804	41,715,804	41,715,804
	\$ 243,212,616	\$ 3,406,107	\$ 246,618,723	\$ 249,288,757
December 31, 2011				
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
	\$ 201,957,300	\$ 2,830,956	\$ 204,788,256	\$ 207,408,290

The difference in the acquisition cost of Quetico at December 31, 2011 and June 30, 2012 is due to foreign currency translation.

Intangible assets:

The Corporation holds intangible assets as follows:

June 30, 2012	Acquisition Cost	Capitalized Cost	Accumulated Amortization	Net Cost
End of the Roll	\$ 7,200,000	\$ 74,920	\$ (659,250)	\$ 6,615,669
December 31, 2011				
End of the Roll	\$ 7,200,000	\$ 74,920	\$ (613,782)	\$ 6,661,138

4. Investments (continued)

The Corporation received royalties and distributions as follows:

Royalties and distributions:					
	Three months ended June 30		Six months ended June 30		
	2012	2011	2012	2011	
LifeMark Health	\$ 1,687,500	\$ 2,783,398	\$ 3,375,000	\$ 5,849,776	
Solowave	1,240,000	1,250,000	2,480,000	2,500,000	
Killick	1,075,000	-	2,150,000	-	
Quetico	1,073,274	-	2,136,717	-	
KMH	1,051,030	225,243	2,099,146	443,993	
LMS	507,633	425,891	987,048	833,573	
Labstat	424,328	-	424,328	-	
End of the Roll	279,007	322,364	616,752	712,594	
MEDiChair	-	228,688	-	530,967	
	\$ 7,337,772	\$ 5,235,584	\$ 14,268,991	\$ 10,870,903	

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 Trade and other receivables.

5. Share capital:

On June 27, 2012 the Corporation issued 2,515,000 shares for gross proceeds of \$49,042,500 (share issue costs - \$2,672,241 gross, \$2,004,175 net of the tax impact). In the six months ended June 30, 2012, the Corporation issued 4,451 shares for a value of \$82,800 under the Restricted Share Unit ("RSU") Plan.

The Corporation has authorized, issued and outstanding, 21,994,661 voting common shares as at June 30, 2012.

5. Share capital (continued):

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 declared a dividend of \$0.10 per share (\$11,451,274 in aggregate). For each of the six months ended June 30, 2011, dividends of \$0.085 per common share were declared (\$8,621,337 in aggregate).

6. Loans and borrowings:

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 June 30, 2012, the Corporation is in compliance with each of the covenants. During the three months ending June 30, 2012, the Corporation voluntarily repaid \$1,000,000 of the loan, then drew down \$43,000,000 for the Labstat acquisition and repaid \$46,000,000 out of proceeds from the share capital offering leaving a balance of \$500,000 at June 30, 2012.

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 867,667 and issued 384,400 RSUs to management and Directors as of June 30, 2012. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (290,650) are now fully amortized and were subject to certain performance conditions relating to operating cash flow per share. The shares were issued on July 8, 2012. 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. Payments to management are split evenly between cash and common shares.

For the three and six months ended June 30, 2012, the Corporation incurred stock-based compensation expenses of \$349,488 and \$698,977 (2011 - \$518,353 and \$1,031,418) which includes: \$97,975 and \$195,949 (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 - \$363,872 and \$720,546); \$41,400 and \$82,800 (non-cash expense) for shares issued in the period in lieu of dividends under the RSU Plan (2011 - \$37,050 and \$74,100); and \$210,114 and \$420,228 (non-cash expense) for the portion of the amortization of the fair value of outstanding stock options (2011 - \$117,431 and \$236,772). The Corporation has reserved 1,216,476 and issued 929,975 options that vest over a four-year period and expire in five years.

7. Share-based payments (continued):

The options outstanding at June 30, 2012, have an exercise price in the range of \$7.27 to \$16.87 and a weighted average contractual life of 3.2 years (2011 – 3.7 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	\$	80,221
2012		166,354
2013		166,354
2014		166,354
2016		152,491
	\$	731,774
