



Unaudited Condensed Consolidated Interim Financial
Statements of

ALARIS ROYALTY CORP.

For the three months ended March 31, 2012

Alaris Royalty Corp.

Condensed consolidated statement of financial position (unaudited)

| | Note | March 31 2012 | December 31 2011 |
|--|------|----------------------|----------------------|
| Assets | | | |
| Cash and cash equivalents | | \$4,061,990 | \$3,888,465 |
| Prepayments | | 81,240 | 119,508 |
| Trade and other receivables | | 376,904 | 3,443,679 |
| Current Assets | | 4,520,134 | 7,451,652 |
| Equipment | | 67,602 | 66,743 |
| Intangible assets | 4 | 6,638,404 | 6,661,138 |
| Preferred LP Units | 4 | 207,106,599 | 207,408,290 |
| Investment tax credit receivable | | 10,922,393 | 10,922,393 |
| Deferred income taxes | | 12,567,029 | 13,967,984 |
| Non-current assets | | 237,302,031 | 239,026,548 |
| Total Assets | | \$241,822,165 | \$246,478,200 |
| Liabilities | | | |
| Accounts payable and accrued liabilities | | \$345,641 | \$1,546,705 |
| Dividends payable | | 1,850,362 | 1,850,145 |
| Income taxes payable | | 134,266 | 67,590 |
| Loans and borrowings | 6,9 | 375,000 | - |
| Current Liabilities | | 2,705,269 | 3,464,440 |
| Loans and borrowings | 6,9 | 4,125,000 | 6,500,000 |
| Non-current liabilities | | 4,125,000 | 6,500,000 |
| Total Liabilities | | \$6,830,269 | \$9,964,440 |
| Equity | | | |
| Share capital | 5 | \$200,863,565 | \$200,822,160 |
| Equity reserve | | 4,934,588 | 4,626,500 |
| Fair value reserve | | 2,292,939 | 2,292,939 |
| Translation reserve | | (334,563) | (124,947) |
| Retained Earnings | | 27,235,367 | 28,897,108 |
| Total Equity | | \$234,991,896 | \$236,513,760 |
| Total Liabilities and Equity | | \$241,822,165 | \$246,478,200 |
| Commitments | 8 | | |
| Subsequent event | 9 | | |

Alaris Royalty Corp.

Condensed consolidated statement of comprehensive income (unaudited)

For the three months ended March 31

| | Note | 2012 | 2011 |
|---|------|--------------------|---------------------|
| Revenues | | | |
| Royalties and distributions | 4 | \$6,931,784 | \$5,635,319 |
| Interest and other | | 106,534 | - |
| Total Revenue | | 7,038,317 | 5,635,319 |
| | | | |
| Salaries and benefits | | 232,810 | 223,337 |
| Corporate and office | | 307,157 | 277,140 |
| Legal and accounting fees | | 185,327 | 113,049 |
| Non-cash stock-based compensation | 7 | 349,488 | 513,065 |
| Depreciation and amortization | | 26,539 | 47,171 |
| Subtotal | | 1,101,321 | 1,173,762 |
| Earnings from operations | | 5,936,996 | 4,461,557 |
| Finance cost | | 116,178 | 419,400 |
| Unrealized foreign exchange loss | | 325,988 | - |
| Earnings before taxes | | 5,494,830 | 4,042,157 |
| Deferred income tax expense | | 1,400,958 | 1,116,653 |
| Current income tax expense | | 137,232 | - |
| Earnings | | \$3,956,640 | \$2,925,504 |
| | | | |
| Other comprehensive income | | | |
| Net change in fair value of Preferred LP units | 4 | - | 1,736,546 |
| Tax impact of change in fair value | | - | (217,068) |
| Foreign currency translation differences | | (209,616) | - |
| Other comprehensive income for the period, net of income tax | | (209,616) | 1,519,478 |
| Total comprehensive income for the period | | \$3,747,024 | \$ 4,444,982 |
| | | | |
| Earnings per share | | | |
| Basic earnings per share | | \$0.20 | \$0.17 |
| Fully diluted earnings per share | | \$0.20 | \$0.17 |
| | | | |
| Weighted average shares outstanding | | | |
| Basic | | 19,476,369 | 16,814,002 |
| Fully Diluted | | 20,135,586 | 17,319,932 |

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the three months ended March 31, 2011

| | Notes | Share capital | Warrants | Contributed surplus | Accumulated OCI | 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 | | - | - | - | - | 2,925,504 | 2,925,504 |
| Other comprehensive income | | | | | | | |
| Net change in fair value of available-for-sale financial assets | 6 | - | - | - | 1,736,546 | - | 1,736,546 |
| Tax impact of fair value adjustment | | | | | (217,068) | | (217,068) |
| Non-cash stock based compensation | 10 | - | - | 476,015 | - | - | 476,015 |
| Tax value of share issue costs | 8 | 1,138 | - | - | - | - | 1,138 |
| Total other comprehensive income | | 1,138 | - | 476,015 | 1,519,478 | - | 1,996,631 |
| Total comprehensive income for the period | | \$1,138 | \$- | \$476,015 | \$1,519,478 | \$2,925,504 | \$4,922,135 |
| Transactions with shareholders of the Company, recognized directly in equity | | | | | | | |
| Contributions by and distributions to shareholders of the Company | | | | | | | |
| Warrants exercised in the period | 8 | \$3,580,500 | \$- | \$- | \$- | \$- | \$3,580,500 |
| Fair value of warrants exercised in the period | 8 | 350,785 | (350,785) | - | - | - | - |
| Dividends to shareholders | 8 | - | - | - | - | (4,308,082) | (4,308,082) |
| Payments in lieu of dividends on RSUs | 10 | - | - | - | - | (60,966) | (60,966) |
| Shares issued in lieu of dividends on RSUs | 10 | 37,050 | - | - | - | - | 37,050 |
| Total transactions with Shareholders of the Company | | 3,968,335 | (350,785) | - | - | (4,369,048) | (751,498) |
| Balance at March 31, 2011 | | \$161,371,801 | \$54,521 | \$3,650,846 | \$23,869,635 | \$11,008,318 | \$199,955,121 |

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)
For the three months ended March 31, 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 | | - | - | - | - | 3,956,640 | 3,956,640 |
| Other comprehensive income | | | | | | | |
| Foreign currency translation differences | | - | - | - | (209,616) | - | (209,616) |
| Total other comprehensive income | | - | - | - | (209,616) | - | (209,616) |
| Total comprehensive income for the period | | \$- | \$- | \$- | \$(209,616) | \$3,956,640 | 3,747,024 |
| 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 | \$- | \$308,088 | \$- | \$- | \$- | \$308,088 |
| Dividends to shareholders | 5 | - | - | - | - | (5,550,235) | (5,550,235) |
| Payments in lieu of dividends on RSUs | 7 | - | - | - | - | (68,146) | (68,146) |
| Shares issued in lieu of dividends on RSUs | 7 | 41,405 | - | - | - | - | 41,405 |
| Total transactions with Shareholders of the Company | | 41,405 | 308,088 | - | - | (5,618,381) | (5,268,888) |
| Balance at March 31, 2012 | | \$200,863,565 | \$4,934,588 | \$2,292,939 | \$(334,563) | \$27,235,367 | \$234,991,896 |

Alaris Royalty Corp.

Condensed consolidated statement of cash flows (unaudited)

For the three months ended March 31

| | Note | 2012 | 2011 |
|--|------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Earnings from the period | | \$3,956,640 | \$2,925,504 |
| Adjustments for: | | | |
| Finance costs | | 116,178 | 419,400 |
| Deferred income taxes | | 1,400,958 | 1,116,653 |
| Depreciation and amortization | | 26,539 | 47,171 |
| Unrealized foreign exchange loss | | 325,988 | - |
| Gain on forward contract | | (106,534) | - |
| Non-cash stock based compensation | 7 | 349,488 | 513,065 |
| | | <u>\$6,069,257</u> | <u>\$5,021,793</u> |
| Change in: | | | |
| -trade and other receivables | | \$3,082,362 | \$505,679 |
| -prepayments | | 38,268 | 165,643 |
| -trade and other payables | | (1,066,494) | (1,114,034) |
| | | <u>8,123,393</u> | <u>4,579,081</u> |
| Cash generated from operating activities | | <u>8,123,393</u> | <u>4,579,081</u> |
| Finance costs | | (116,178) | (419,400) |
| Net cash from operating activities | | <u>\$8,007,215</u> | <u>\$4,159,681</u> |
| Cash flows from investing activities | | | |
| Acquisition of equipment | | \$(4,665) | \$(4,150) |
| Acquisition of Preferred LP Units | | (210,223) | (66,455) |
| Net cash used in investing activities | | <u>\$(214,888)</u> | <u>\$(70,605)</u> |
| Cash flows from financing activities | | | |
| Proceeds from exercise of warrants | 5 | \$- | \$3,580,500 |
| Repayment of debt | 6 | (2,000,000) | (3,000,000) |
| Dividends paid | 5 | (5,550,656) | (4,267,452) |
| Payments in lieu of dividends on RSUs | 7 | (68,146) | (60,966) |
| Net cash used in financing activities | | <u>\$(7,618,802)</u> | <u>\$(3,747,918)</u> |
| Net increase in cash and cash equivalents | | \$173,525 | \$341,158 |
| Cash and cash equivalents, Beginning of period | | 3,888,465 | 1,816,868 |
| Cash and cash equivalents, End of period | | <u>\$4,061,990</u> | <u>\$2,158,026</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, 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 April 27, 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:

| March 31, 2012 | Acquisition Cost | Capitalized Cost | Net Cost | Fair Value |
|--------------------------|-------------------------|-------------------------|-----------------|-------------------|
| LifeMark Health | \$ 36,450,000 | \$ 499,894 | \$ 36,949,894 | \$ 65,500,000 |
| Lower Mainland Steel | 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 | 26,845,393 | 862,483 | 27,707,876 | 27,707,876 |
| Capitalized costs | - | 148,723 | 148,723 | 148,723 |
| | \$ 201,445,393 | \$ 3,041,172 | \$ 204,486,565 | \$ 207,106,599 |
| December 31, 2011 | | | | |
| LifeMark Health | \$ 36,450,000 | \$ 499,894 | \$ 36,949,894 | \$ 65,500,000 |
| Lower Mainland Steel | 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 March 31, 2012 is due to foreign currency translation.

The Corporation holds intangible assets as follows:

| March 31, 2012 | Acquisition Cost | Capitalized Cost | Accumulated Amortization | Net Cost |
|--------------------------|-------------------------|-------------------------|---------------------------------|-----------------|
| End of the Roll | \$ 7,200,000 | \$ 74,920 | \$ (636,516) | \$ 6,638,404 |
| 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:

Three months ending March 31

| | 2011 | 2010 |
|-----------------|--------------|--------------|
| LifeMark Health | \$ 1,687,500 | \$ 3,066,378 |
| Solowave | 1,240,000 | 1,250,000 |
| Killick | 1,075,000 | - |
| Quetico | 1,064,008 | - |
| KMH | 1,048,116 | 218,750 |
| LMS | 479,415 | 407,682 |
| End of the Roll | 337,745 | 390,230 |
| MEDlchair | - | 302,279 |
| | \$ 6,931,784 | \$ 5,635,319 |

5. Share capital:

In the three months ended March 31, 2012, the Corporation issued 2,285 shares for a value of \$41,405 under the Restricted Share Unit ("RSU") Plan.

The Corporation has authorized, issued and outstanding, 19,477,495 voting common shares as at March 31, 2012.

Dividends

The following dividends were declared and paid by the Corporation:

In each of the three months in 2012, the Corporation declared a dividend of \$0.095 per common share (\$5,550,235 in aggregate). For the three months ended March 31, 2011, dividends of \$0.085 per common share were declared (\$4,308,082 in aggregate).

6. Debt:

Corporation has a \$30,100,000 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 March 31, 2012, the Corporation is in compliance with each of the covenants. During the three months ending March 31, 2012, the Corporation voluntarily repaid \$2,000,000 of the loan leaving a balance of \$4,500,000 at March 31, 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 March 31, 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 will be issued subsequent to the issuing of these condensed consolidated interim financial statements. 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 months ended March 31, 2012, the Corporation incurred stock-based compensation expenses of \$349,488 (2011 - \$513,065) which includes: \$97,974 (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 (2011 - \$359,873); \$41,400 (non-cash expense) for shares issued in the period in lieu of dividends under the RSU Plan (2011 - \$37,050); and \$210,114 (non-cash expense) for the first quarter portion of the amortization of the fair value of outstanding stock options (2011 - \$116,142). The Corporation has reserved 1,216,476 and issued 929,975 options that vest over a four-year period and expire in five years.

The options outstanding at March 31, 2012, have an exercise price in the range of \$7.27 to \$16.87 and a weighted average contractual life of 3.4 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 | \$ | 120,036 |
| 2012 | | 166,354 |
| 2013 | | 166,354 |
| 2014 | | 166,354 |
| 2016 | | 152,491 |
| | \$ | 771,589 |

9. Subsequent Event:

On April 24, 2012, the Corporation extended its senior debt facility from \$30.1 million to \$50.1 million using the same syndicate of lenders under similar terms of the facility outlined in these condensed consolidation interim financial statements.