



Consolidated Financial Statements of

**ALARIS ROYALTY CORP.**

Audited statements for the years ended December 31, 2011 and  
2010



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## **To the Shareholders of Alaris Royalty Corp.**

We have audited the accompanying consolidated financial statements of Alaris Royalty Corp., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

### ***Management's responsibility for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Alaris Royalty Corp. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Calgary, Canada  
March 14, 2012

# Alaris Royalty Corp.

## Consolidated statement of financial position

	Note	December 31 2011	December 31 2010	January 1 2010
<b>Assets</b>				
Cash and cash equivalents		\$3,888,465	\$1,816,868	\$ 3,826,000
Prepayments		119,508	343,184	103,472
Trade and other receivables		3,443,679	688,514	2,470
<b>Current Assets</b>		<b>7,451,652</b>	<b>2,848,566</b>	<b>3,931,942</b>
Equipment	7	66,743	69,671	74,477
Intangible assets	5	6,661,138	12,896,916	13,070,150
Preferred LP Units	5	207,408,290	182,907,000	122,286,000
Investment tax credit receivable	6	10,922,393	10,922,393	11,030,007
Deferred income taxes	6	13,967,984	18,158,192	22,454,167
<b>Non-current assets</b>		<b>239,026,548</b>	<b>224,954,172</b>	<b>168,914,801</b>
<b>Total Assets</b>		<b>\$246,478,200</b>	<b>\$227,802,738</b>	<b>\$172,846,743</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities		\$1,546,705	\$1,421,992	\$939,085
Dividends payable		1,850,145	1,396,262	802,604
Income taxes payable		67,590	-	-
Loans and borrowings	9,11	-	-	9,350,000
<b>Current Liabilities</b>		<b>3,464,440</b>	<b>2,818,254</b>	<b>11,091,689</b>
Loans and borrowings	9	6,500,000	29,200,000	19,700,000
<b>Non-current liabilities</b>		<b>6,500,000</b>	<b>29,200,000</b>	<b>19,700,000</b>
<b>Total Liabilities</b>		<b>9,964,440</b>	<b>32,018,254</b>	<b>30,791,689</b>
<b>Equity</b>				
Share capital	8	200,822,160	157,402,328	111,663,148
Warrants	8	-	405,306	845,000
Equity reserve		4,626,500	3,174,831	1,869,901
Fair value reserve		2,292,939	22,350,157	9,766,188
Translation reserve		(124,947)	-	-
Retained Earnings		28,897,108	12,451,862	17,910,817
<b>Total Equity</b>		<b>236,513,760</b>	<b>195,784,484</b>	<b>142,055,054</b>
<b>Total Liabilities and Equity</b>		<b>\$246,478,200</b>	<b>\$227,802,738</b>	<b>\$172,486,743</b>

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(signed) "Jack C. Lee" Director

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(signed) "Mary Ritchie" Director

## Alaris Royalty Corp.

### Consolidated statement of comprehensive income

	Note	Years ended Dec 31	
		2011	2010
<b>Revenues</b>			
Royalties and distributions	5	\$21,497,960	\$16,657,034
Interest and other		68,408	2,190
Gain on reduction of partner interests	5	23,815,973	-
Gain on sale of intangible assets	5	3,891,560	-
<b>Total Revenue</b>		<b>49,273,901</b>	<b>16,659,224</b>
<b>Expenses</b>			
Salaries and benefits	11	1,875,508	1,060,915
Corporate and office		859,727	626,990
Legal and accounting fees		556,621	443,262
Non-cash stock-based compensation	10,11	1,978,727	1,817,981
Depreciation and amortization		143,244	190,028
<b>Subtotal</b>		<b>5,413,827</b>	<b>4,139,176</b>
<b>Earnings from operations</b>		<b>43,860,074</b>	<b>12,520,048</b>
Finance cost		1,235,348	1,707,713
Unrealized foreign exchange loss		183,060	-
<b>Earnings before taxes</b>		<b>42,441,666</b>	<b>10,812,335</b>
Deferred income tax expense	6	7,661,200	3,411,119
Current income tax expense	6	68,022	-
<b>Earnings</b>		<b>34,712,444</b>	<b>\$7,401,216</b>
<b>Other comprehensive income</b>			
Net change in fair value of Preferred LP units	5	1,093,437	14,381,679
Tax impact of change in fair value		(136,679)	(1,797,710)
Realized gain on reduction of partnership interest	5	(24,015,973)	-
Tax impact of realized gain		3,001,997	-
Foreign currency translation differences		(124,947)	-
<b>Other comprehensive income for the period, net of income tax</b>		<b>(20,182,165)</b>	<b>12,583,969</b>
<b>Total comprehensive income for the period</b>		<b>\$ 14,530,279</b>	<b>\$ 19,985,185</b>
<b>Earnings per share</b>			
Basic earnings per share		\$2.04	\$0.56
Fully diluted earnings per share		\$1.97	\$0.54
<b>Weighted average shares outstanding</b>			
Basic		17,036,346	13,104,165
Fully Diluted		17,595,740	13,651,879

## Alaris Royalty Corp.

Consolidated statement of changes in equity

For the year ended December 31, 2010

	Notes	Share Capital	Warrants	Equity Reserve	Fair Value Reserve	Retained Earnings	Total Equity
Balance at January 1, 2010		\$111,663,148	\$845,000	\$1,869,901	\$9,766,188	\$17,910,817	\$142,055,054
<b>Total comprehensive income for the year</b>							
<b>Earnings for the period</b>		-	-	-	-	7,401,216	7,401,216
<b>Other comprehensive income</b>		-	-	-	-	-	-
Net change in fair value of available-for-sale financial assets	5	-	-	-	14,381,679	-	14,381,679
Tax impact of change in fair value					(1,797,710)		(1,797,710)
<b>Total other comprehensive income</b>		-	-	-	12,583,969	-	19,985,185
<b>Total comprehensive income for the year</b>		\$-	\$-	\$-	\$12,583,969	\$7,401,216	\$19,985,185
<b>Transactions with shareholders of the Company, recognized directly in equity</b>							
Non-cash stock based compensation	10	\$-	\$-	\$1,679,930	\$-	\$-	\$1,679,930
Warrants exercised in the period	8	4,488,000	-	-	-	-	4,488,000
Fair value of warrants exercised in the period	8	439,694	(439,694)	-	-	-	-
Dividends to shareholders	8	-	-	-	-	(12,628,487)	(12,628,487)
Payments in lieu of dividends on RSUs	10	-	-	-	-	(226,105)	(226,105)
Shares issued in lieu of dividends on RSUs	10	138,050	-	-	-	-	138,500
Shares issued after director RSU vesting		375,000	-	(375,000)	-	-	-
Shares issued in the period		42,568,500	-	-	-	-	42,568,500
Share issue costs, net of tax		(2,270,064)	-	-	-	(5,579)	(2,275,643)
<b>Total transactions with Shareholders of the Company</b>		45,739,180	(439,694)	1,304,930	-	(12,860,171)	33,744,245
Balance at December 31, 2010		\$157,402,328	\$405,306	\$3,174,831	\$22,350,157	\$12,451,862	\$195,784,484

## Alaris Royalty Corp.

Consolidated statement of changes in equity  
For the year ended December 31, 2011

	Notes	Share Capital	Warrants	Equity Reserve	Fair Value Reserve	Translation 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 year</b>								
<b>Earnings for the period</b>		-	-	-	-	-	34,712,444	34,712,444
<b>Other comprehensive income</b>								
Net change in fair value of available-for-sale financial assets	5	-	-	-	1,093,437	-	-	1,093,437
Tax impact of change in fair value					(136,679)	-		(136,679)
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		-	-	-	-	(124,947)	-	(124,947)
<b>Total other comprehensive income</b>		-	-	-	(20,057,218)	(124,947)	-	(20,182,165)
<b>Total comprehensive income for the year</b>		\$-	\$-	\$-	\$(20,057,218)	\$(124,947)	\$34,712,444	\$14,530,279
<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	10	\$-	\$-	\$1,826,178	\$-	\$-	\$-	\$1,826,178
Warrants exercised in the period	8	3,988,875	-	-	-	-	-	3,988,875
Fair value of warrants exercised in the period	8	390,794	(390,794)	-	-	-	-	-
Fair value of warrants expired in the period		-	(14,512)	14,512	-	-	-	-
Dividends to shareholders	8	-	-	-	-	-	(18,014,242)	(18,014,242)
Options exercised in the period	8	126,696	-	(14,021)	-	-	-	112,675
Payments in lieu of dividends on RSUs	10	-	-	-	-	-	(248,653)	(248,653)
Shares issued after director RSU vesting		375,000	-	(375,000)	-	-	-	-
Shares issued in the period		40,053,000	-	-	-	-	-	40,053,000
Share issue costs, net of tax		(1,667,083)	-	-	-	-	(4,303)	(1,671,386)
Shares issued in lieu of dividends on RSUs	10	152,550	-	-	-	-	-	152,550
<b>Total transactions with Shareholders of the Company</b>		43,419,832	(405,306)	1,451,669	-	-	(18,267,198)	26,198,997
Balance at December 31, 2011		\$200,822,160	\$-	\$4,626,500	\$2,292,939	\$(124,947)	\$28,897,018	\$236,513,760

## Alaris Royalty Corp.

Consolidated statement of cash flows

For the years ended December 31

	Note	2011	2010
<b>Cash flows from operating activities</b>			
Earnings from the year		\$34,712,444	\$7,401,216
Adjustments for:			
Finance costs		1,235,348	1,707,713
Deferred income taxes	6	7,661,200	3,411,119
Depreciation and amortization	7	143,244	190,028
Gain on intangible asset sale and reduction of partnership interest		(27,707,533)	-
Gain on foreign exchange forward contract		(21,864)	-
Unrealized foreign exchange loss		183,060	-
Non-cash stock based compensation	10	1,978,727	1,817,981
		<u>18,184,626</u>	<u>14,528,057</u>
Change in:			
-trade and other receivables		(2,755,165)	(686,044)
-prepayments		223,676	(239,712)
-trade and other payables		192,303	482,907
		<u>15,845,440</u>	<u>14,085,208</u>
<b>Cash generated from operating activities</b>		<u>15,845,440</u>	<u>14,085,208</u>
Finance costs		(1,235,348)	(1,707,713)
<b>Net cash from operating activities</b>		<u>14,610,092</u>	<u>12,377,495</u>
<b>Cash flows from investing activities</b>			
Acquisition of equipment		(12,979)	(11,989)
Acquisition of Preferred LP Units		(78,948,286)	(46,239,320)
Proceeds from reduction in Preferred LP Units and Intangible asset sale		65,000,000	-
		<u>\$(13,961,265)</u>	<u>\$(46,251,309)</u>
<b>Net cash used in investing activities</b>		<u>\$(13,961,265)</u>	<u>\$(46,251,309)</u>
<b>Cash flows from financing activities</b>			
New share capital, net of share issue costs	8	37,830,223	39,487,617
Proceeds from exercise of warrants	8	3,988,875	4,488,000
Proceeds from exercise of options	8	112,675	-
Repayment of debt	9	(66,700,000)	(9,350,000)
Proceeds from debt	9	44,000,000	9,500,000
Dividends paid	8	(17,560,350)	(12,034,829)
Payments in lieu of dividends on RSUs	10	(248,653)	(226,105)
		<u>\$1,422,770</u>	<u>\$31,864,683</u>
<b>Net cash used in financing activities</b>		<u>\$1,422,770</u>	<u>\$31,864,683</u>
<b>Net increase in cash and cash equivalents</b>		<u>2,071,597</u>	<u>(2,009,132)</u>
Cash and cash equivalents, Beginning of year		<u>1,816,868</u>	<u>3,826,000</u>
<b>Cash and cash equivalents, End of year</b>		<u>\$3,888,465</u>	<u>\$1,816,868</u>



### 1. Reporting entity:

Alaris is a company domiciled in Calgary, Alberta, Canada. The consolidated financial statements of the Company as at and for the year ended December 31, 2011 comprises 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in note 13. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of the transition reported under Canadian GAAP to those reported for those periods and at the date of transition under IFRS.

These consolidated financial statements were approved by the Board of Directors on March 14, 2012.

#### (b) Basis of measurement

The consolidated 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 consolidated financial statements are presented in Canadian dollars which is the Corporation's functional currency.

#### (d) Use of estimates

The preparation of the consolidated financial statements in conformity with IFRS 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

**2. Statement of compliance (continued)**

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:

***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 5 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.

**3. Significant accounting policies:**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

**(a) Basis of consolidation**

(i) Subsidiaries

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-Corporation balances and transactions, and any unrealized income and expenses arising from intra-Corporation transactions, are eliminated in preparing the consolidated financial statements.

**(b) Revenue recognition**

The Corporation recognizes revenue from the distributions and royalties it receives from the Private Company Partners as they become due under the partnership agreement, limited liability corporation agreement, or royalty agreement with each specific Partner.

**(c) Financial instruments**

(i) Non-derivative financial assets

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

**3. Significant accounting policies (continued):**

***Loans and receivables***

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables are comprised of cash and cash equivalents, and trade and other receivables.

***Cash and cash equivalents***

Cash and cash equivalents are comprised of cash balances and banker's acceptances with original maturities of three months or less.

***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the previous categories. The Corporation's investments in preferred partnership units and limited liability corporations are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented in fair value reserve. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

***(ii) Derivative financial instruments***

The Corporation holds derivative financial instruments to hedge its foreign currency exposure. The Corporation has entered into forward contracts equal to the monthly and quarterly flow of funds from its investment in Quetico, the Corporation's lone foreign investment. The Corporation matched 100% of the 2012 scheduled distributions to the Canadian parent and 90% of the expected 2013 distributions resulting in an economic hedge of the foreign currency exposure. The fair value of the forward contracts will be estimated at each reporting date and any gain or loss on the contracts will be recognized in profit or loss.

**(d) Share capital**

***Common shares***

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

**(e) Equipment**

***(i) Recognition and measurement***

Equipment is measured at cost less accumulated depreciation.

***(ii) Depreciation***

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of the asset. Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted if appropriate.

**3. Significant accounting policies (continued):****(f) Intangible assets****(i) Other intangible assets**

Other intangible assets that are acquired by the Corporation have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

**(ii) Amortization**

Amortization is based on the cost of an asset less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets from the date that they are available for use. Intangible assets held by the Corporation include intellectual property and are amortized over the 80 year life of the license and royalty agreement. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(g) Impairment****(i) Non-derivative financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

**Available-for-sale financial assets**

Impairment losses on available-for-sale financial assets are recognized by reclassifying losses accumulated in fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

**3. Significant accounting policies (continued):****(h) Share based payment transactions**

The grant-date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

**(i) Finance costs**

Finance costs comprise interest expense on borrowings, losses on disposal of available-for-sale financial assets, and fair value losses on financial assets at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset are recognized in profit or loss using the effective interest method.

**(j) Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they related to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

**3. Significant accounting policies (continued):**

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(k) Earnings per Share**

The Corporation presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise warrants, restricted share units and share options granted to employees.

**(l) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of the Corporation's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for available for sale equity investments (except on impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss) which are recognized in other comprehensive income.

**(m) Foreign operations**

The assets and liabilities of foreign operations are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is

**3. Significant accounting policies (continued):**

disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as a part of the gain or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

**(n) New standards and interpretations not adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Corporation, except for IFRS 9, Financial Instruments, which becomes mandatory for the Corporation's 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Corporation does not plan to adopt this standard early and the extent of the impact has not been determined.

**4. Financial risk management****Overview**

The Corporation has exposure to the following risks from its use of financial instruments:

- credit risk and other price risk
- liquidity risk
- market risk
- foreign exchange risk

This note presents information about the Corporation's exposure to each of the above risks, the group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

**Risk Management Framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

**4. Financial risk management (continued):**

The Corporation's risk management policies are established to identify and analyse the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Corporation's Audit Committee oversees how management monitors compliance with the Corporation's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Corporation. The Audit Committee undertakes both regular and *ad hoc* reviews of risk management controls and procedures.

**Credit Risk and Other Price Risk**

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investments. Concentrations of credit risk exist when a significant proportion of the Corporation's assets are invested in a small number of individually significant investments, and investments with similar characteristics and/or subject to similar economic, political and other conditions that may prevail. The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Corporation's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. Approximately 43 percent (year ended December 31, 2010 - 68 percent) of the Corporation's revenue in the year ended December 31, 2011 is attributable to one Private Company Partner.

Other price risk is the risk that future cash flows associated with portfolio investments will fluctuate. Cash flow from investments is generally based on a percentage of the investments gross revenue, same store sales, gross margin or other similar revenue. Accordingly, to the extent that the financial performance of the investment declines in respect of the relevant performance metric, cash payments to the Corporation will decline. Portfolio investment agreements allow for the repayment of investments at the option of the portfolio entity, and such repayment could affect future cash flows.

The Corporation is exposed to credit related losses on current and future amounts receivable pursuant to investment agreements. In the event of non-performance by Partners, future royalty and distribution revenue from the investments could be reduced, resulting in impairment of investment values. The investment agreements provide that payments are receivable monthly no later than the last day of the month.



## Alaris Royalty Corp.

Notes to Consolidated Financial Statements  
Year ended December 31, 2011

### 4. Financial risk management (continued):

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing in less than 90 days. The Corporation manages the credit exposure related to short-term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper. The Corporation held cash and cash equivalents of \$3,888,465 at December 31, 2011 (December 31, 2010 - \$1,816,868), which represents its maximum credit exposure on these assets.

The carrying amount of investments, accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Corporation does not have an allowance for doubtful accounts as at December 31, 2011 and did not provide for any doubtful accounts nor was it required to write-off any receivables or investments during the year ended December 31, 2011. Included in the accounts receivable total was a \$3.2 million promissory note from KMH that was repaid in full on February 13, 2012. The remaining items in accounts receivable were current at December 31, 2011.

#### Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

Typically the Corporation ensures that it has sufficient cash on hand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. In addition, the Corporation maintains a \$30.1 million, 364 day revolving credit facility, and has \$6.5 million balance drawn at December 31, 2011 (\$29.2 million at December 31, 2010). The Corporation has the following financial instruments that mature as follows:

	Total	0-6 months	6 mo-1 yr	1-2 years	3-4 years
Accounts payable and accrued liabilities	\$ 1,546,705	\$ 1,546,705	\$ -	\$ -	\$ -
Dividends payable	1,850,145	1,850,145	-	-	-
Income taxes payable	67,590	67,590	-	-	-
Total	\$ 3,464,440	\$ 3,464,440	\$ -	\$ -	\$ -

#### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. All such transactions are carried out within the guidelines set by the Risk Management Committee.

**4. Financial risk management (continued):****Foreign currency exchange rate risk and commodity price risk**

As a result of the Quetico investment in the United States, the Corporation has some exposure to foreign currency exchange rate risk. The Corporation purchased forward exchange rate contracts matching the expected distributions in US dollars throughout 2012 and also for 90% of the expected distributions in 2013. The Corporation intends to purchase additional contracts each quarter so that two years of distributions would be hedged against movement in the US Dollar compared to the Canadian dollar. The Corporation had no commodity price risk for the year ended December 31, 2011.

**Interest Rate Risk**

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate fluctuations on its bank debt that bears a floating rate of interest. As at December 31, 2011, if interest rates had been 1% lower with all other variables held constant, net income for the year would have been approximately \$180,000 higher, due to lower interest expense. An equal and opposite impact would have occurred to net income had interest rates been 1% higher.

The Corporation had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2011.

**Capital Management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital, a 364 day revolving credit facility and retained earnings. The Board of Directors monitors the return on capital as well as the level of dividends to common shareholders.

The Corporation manages capital by monitoring certain debt covenants set out in its credit facility. The Corporation has a maximum senior debt to contracted EBITDA of 1.7:1 (0.15:1 at December 31, 2011). EBITDA is defined as net income before interest expense, income taxes, depreciation and amortization and non-cash stock-based compensation expenses. Additionally, a minimum tangible net worth requirement of \$190.3 million is in place (\$236.5 million at December 31, 2011). Tangible net worth is defined as subordinated debt plus shareholders equity. The Corporation was in compliance with all debt covenants at December 31, 2011. In order to acquire more distributions and royalties, the Corporation can access its credit facility and above that needs to access public equity markets to fund the acquisitions and manage the business within the bank covenants. There were no changes in the Corporation's approach to capital management during the year ended December 31, 2011.

## Alaris Royalty Corp.

Notes to Consolidated Financial Statements  
Year ended December 31, 2011

### 4. Financial risk management (continued):

#### Fair Value of Financial Instruments

The Corporation's financial instruments as at December 31, 2011 and December 31, 2010 include cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, and bank indebtedness. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and approximate their carrying amounts due to their short-terms to maturity. Bank indebtedness bears interest at a floating market rate and accordingly the fair market value approximates the carrying value. The fair values of the available for sale investments are estimated using an approach described in note 5.

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 consolidated statement of financial position as at December 31, 2011 and 2010, and January 1, 2010, 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 years ended December 31, 2011 and 2010, there were no transfers between level 1 or level 2 classified assets and liabilities.

<b>December 31, 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Cash and cash equivalents	\$ 3,888,465	\$ -	\$ 3,888,465
Foreign exchange derivatives	-	21,864	21,864
Preferred LP units	-	207,408,290	207,408,290
	<u>\$ 3,896,652</u>	<u>\$ 207,430,154</u>	<u>\$ 211,318,619</u>
<b>December 31, 2010</b>			
Cash and cash equivalents	\$ 1,816,868	\$ -	\$ 1,816,868
Preferred LP units	-	182,907,000	182,907,000
	<u>\$ 1,816,868</u>	<u>\$ 182,907,000</u>	<u>\$ 184,723,868</u>
<b>January 1, 2010</b>			
Cash and cash equivalents	\$ 3,826,000	\$ -	\$ 3,826,000
Preferred LP units	-	122,286,000	122,286,000
	<u>\$ 3,826,000</u>	<u>\$ 122,286,000</u>	<u>\$ 126,112,000</u>

## Alaris Royalty Corp.

Notes to Consolidated Financial Statements  
Year ended December 31, 2011

### 5. Investments

#### Available for Sale Financial Assets:

<b>December 31, 2011</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
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
	<b>\$ 201,957,300</b>	<b>\$ 2,830,956</b>	<b>\$ 204,788,256</b>	<b>\$ 207,408,290</b>
<b>December 31, 2010</b>				
LifeMark Health	\$ 67,500,000	\$ 291,362	\$ 67,791,362	\$ 120,000,000
Lower Mainland Steel	51,000,000	333,280	51,333,280	24,667,000
Solowave	32,500,000	494,787	32,994,787	32,995,000
KMH	5,000,000	244,534	5,244,534	5,245,000
	<b>\$ 156,000,000</b>	<b>\$ 1,363,963</b>	<b>\$ 157,363,963</b>	<b>\$ 182,907,000</b>
<b>January 1, 2010</b>				
LifeMark Health	\$ 59,500,000	\$ 291,362	\$ 59,791,362	\$ 99,828,000
Lower Mainland Steel	51,000,000	333,280	51,333,280	22,458,000
	<b>\$ 110,500,000</b>	<b>\$ 624,642</b>	<b>\$ 111,124,642</b>	<b>\$ 122,286,000</b>

#### Assumptions used in fair value calculations:

The Corporation estimated the fair value of the available for sale financial assets (Preferred LP Units) by evaluating a number of different methods:

- 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.
- 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.
- 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.

From this analysis, management of the Corporation determined the fair value of the Preferred LP Units for each individual Partner. Below is a summary of the fair value adjustments in 2011 and 2010.

## Alaris Royalty Corp.

Notes to Consolidated Financial Statements  
Year ended December 31, 2011

### 5. Investments (continued):

<b>2011</b>	<b>Opening Fair Value</b>	<b>Additions</b>	<b>Disposals</b>	<b>Fair Value Adjustment</b>	<b>Closing Fair Value</b>
LifeMark Health	\$ 120,000,000	\$ 342,558	\$(55,200,000)	\$ 357,442	\$ 65,500,000
LMS	24,667,000	-	-	633,000	25,300,000
Solowave	32,995,000	16,466	-	72,005	33,050,000
KMH	5,245,000	22,582,995	-	38,534	27,900,000
Killick	-	27,507,544	-	(7,544)	27,500,000
Quetico	-	28,158,290	-	-	28,158,290
	<b>\$ 182,907,000</b>	<b>\$ 78,607,853</b>	<b>\$(55,200,000)</b>	<b>\$ 1,093,437</b>	<b>\$ 207,408,290</b>
<b>2010</b>					
LifeMark Health	99,828,000	8,000,000	-	\$ 12,172,000	\$ 120,000,000
LMS	22,458,000	-	-	2,209,000	24,667,000
Solowave	-	32,994,787	-	466	32,995,000
KMH	-	5,244,534	-	213	5,245,000
	<b>\$ 122,286,000</b>	<b>\$ 46,239,321</b>	<b>-</b>	<b>\$ 14,381,679</b>	<b>\$ 182,907,000</b>

The Corporation holds intangible assets as follows:

#### Intangible Assets:

<b>December 31, 2011</b>	<b>Acquisition Cost</b>	<b>Capitalized Cost</b>	<b>Accumulated Amortization</b>	<b>Net Cost</b>
End of the Roll	\$ 7,200,000	\$ 74,920	\$ (613,782)	\$ 6,661,138
	<b>\$ 7,200,000</b>	<b>74,920</b>	<b>\$ (613,782)</b>	<b>\$ 6,661,138</b>
<b>December 31, 2010</b>				
End of the Roll	\$ 7,200,000	\$ 74,920	\$ (522,845)	\$ 6,752,075
MEDlchair	6,500,000	83,758	(438,917)	6,144,841
	<b>\$ 13,700,000</b>	<b>\$ 158,678</b>	<b>\$ (961,762)</b>	<b>\$ 12,896,916</b>

#### Royalties and distributions:

	<b>2011</b>	<b>2010</b>
LifeMark Health	\$ 9,224,776	\$ 11,330,637
Solowave	5,000,000	208,333
Killick	2,080,645	-
LMS	1,678,949	1,998,842
KMH	1,280,449	563,890
End of the Roll	1,249,309	1,354,892
MEDlchair	530,968	1,200,440
Quetico	452,864	-
	<b>\$ 21,497,960</b>	<b>\$ 16,657,034</b>

## 5. Investments (continued):

## I – Preferred LP Units

## (a) Investment in LifeMark Health Limited Partnership (“LifeMark Health”):

At the beginning of 2011, the Corporation held 900,000 class A preferred partnership units ("LifeMark A Units") and 5,850,000 class B preferred partnership units ("LifeMark B Units") in LifeMark Health (the "LifeMark Investment"). On June 9, 2011, the Corporation entered into a plan of arrangement that resulted in a return of capital, the elimination of the Class A and B units, and a reduction of the annual distributions to \$6.75 million for the twelve months following the close of the transaction. Going forward, Alaris holds 6,750,000 Preferred Units and will receive an annual preferred distribution, in priority to distributions on LifeMark Health's other partnership units, from LifeMark Health of \$6.75 million in the twelve months following close. This represents approximately 50% of the pre-Transaction expected 2011 distribution to Alaris from the LifeMark Group. The post-Transaction annual Distribution has a guaranteed increase of 4% per year thereafter and distributions are receivable monthly. Prior to the return of capital, the fair value of the LifeMark Investment was \$120 million. The current period gain of \$23.8 million is the difference between the \$55 million in proceeds and 46% of the book value of the original investment.

The LifeMark Group became a subsidiary of Centric Health Corporation (“Centric”), who acquired all of the issued and outstanding residual units of LifeMark Health and all of the intellectual property of Life Mark Health and MEDiChair, pursuant to the Transaction. The Transaction was completed by way of a plan of arrangement under the *Business Corporations Act* (Alberta). Alaris and Centric are the only limited partners in LifeMark Health.

Centric has the option at any time after June 9, 2013 to repurchase all (but not less than all) of the LifeMark Preferred Units for \$65.5 million. Starting on June 9, 2013 the repurchase price will increase 4% per year.

## (b) Investment in Lower Mainland Steel Limited Partnership (“LMS”):

The Corporation holds 510,000 Preferred partnership units ("LMS Units") in Lower Mainland Steel (the "LMS Investment"). 150,000 of the LMS Units were acquired on February 2, 2007 for an aggregate acquisition cost of \$15 million. Alaris acquired another 360,000 LMS Units on December 21, 2007 for an aggregate acquisition cost of \$36 million.

Pursuant to the LMS partnership agreement (the "LMS Partnership Agreement") dated April 2, 2007 and as amended December 21, 2007, the LMS Units entitle the Corporation to receive an annual preferred distribution (the “Preferred Distribution”) in priority to distributions on LMS' other partnership units. The base is in two distinct portions and is adjusted at two points (January 1<sup>st</sup> and April 1<sup>st</sup>) in each subsequent twelve month period to the Preferred Distribution for the prior twelve month period multiplied by the percentage increase or decrease in LMS' Gross Profit (as defined in the LMS Partnership Agreement) for the most recently completed fiscal year. Distributions on the LMS Units are receivable monthly.

LMS has the option at any time after April 1, 2010 to repurchase all (but not less than all) of the LMS Units at a pre-negotiated premium to the original purchase price.

**5. Investments (continued):**

(c) Investment in KMH Limited Partnership ("KMH"):

The Corporation holds 274,000 Preferred partnership units ("KMH Units") in KMH Limited Partnership (the "KMH Investment"). 30,000 of the KMH Units were acquired on April 27, 2010 for an aggregate acquisition cost of \$3 million, 20,000 KMH Units on May 18, 2010 for an aggregate acquisition cost of \$2 million, and 224,000 KMH Units on December 30, 2011 for an aggregate acquisition cost of \$22.4 million.

In October 2011, the Corporation invested \$22.4 million into KMH by way of automatically convertible promissory notes (interest at 6.5% per annum) to help finance two acquisitions KMH was completing. The notes automatically converted into KMH Units on December 30, 2011 and the first year distributions on these new units will be \$3.3 million. The Corporation also provided a \$3.2 million demand note (interest at 8.5% per annum) to temporarily bridge mortgage financing on one of the acquisitions. That loan was repaid subsequent to December 31, 2011.

Pursuant to the KMH partnership agreement (the "KMH Partnership Agreement") dated April 27, 2010, the KMH Units entitle the Corporation to receive an annual preferred distribution (the "Preferred Distribution") in priority to distributions on KMH'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 KMH's Same Clinic Sales for the previous fiscal year. Distributions on the KMH Units are receivable monthly.

KMH has the option at any time after April 27, 2013 to repurchase all (but not less than all) of the KMH Units at a pre-negotiated premium to the original purchase price.

(d) Investment in Solowave Design, LP ("Solowave"):

The Corporation holds 3,250,000 Preferred partnership units ("Solowave Units") in Solowave Design Limited Partnership (the "Solowave Investment") acquired on December 16, 2010 for an aggregate acquisition cost of \$32.5 million.

Pursuant to the Solowave partnership agreement (the "Solowave Partnership Agreement") dated December 16, 2010, the Solowave Units entitle the Corporation to receive an annual preferred distribution (the "Preferred Distribution") in priority to distributions on Solowave'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 Solowave's Same Customer Net Sales for the previous fiscal year. Distributions on the Solowave Units are receivable monthly.

Solowave has the option at any time after December 16, 2013 to repurchase all (but not less than all) of the Solowave Units at a pre-negotiated premium to the original purchase price.

(e) Investment in Killick Aerospace, LP ("Killick"):

The Corporation holds 2,725,000 Preferred partnership units ("Killick Units") in Killick Aerospace Limited Partnership (the "Killick Investment") acquired on July 6, 2011 for an aggregate acquisition cost of \$27.25 million.

Pursuant to the Killick partnership agreement (the "Killick Partnership Agreement") dated July 6, 2011, the Killick Units entitle the Corporation to receive an annual preferred distribution (the "Preferred Distribution") in priority to distributions on Killick's other partnership units in an

**5. Investments (continued):**

amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in Killick's Gross Revenue for the previous fiscal year, subject to a maximum increase or decrease of 4%. Distributions on the Killick Units are receivable monthly.

Killick has the option at any time after July 6, 2014 to repurchase all (but not less than all) of the Killick Units at a pre-negotiated premium to the original purchase price.

**(f) Investment in Quetico, LLC ("Quetico"):**

The Corporation, through its wholly-owned subsidiary Alaris USA Inc., holds 1,250 Class B units ("Quetico Units") in Quetico, LLC, an American corporation. The units were acquired on November 22, 2011 for an aggregate acquisition cost of \$27.36 million (Canadian funds).

Pursuant to the Quetico LLC agreement (the "Quetico LLC Agreement") dated November 22, 2011, the Quetico Units entitle the Corporation to receive an annual preferred distribution (the "Preferred Distribution") in priority to distributions on Quetico's other units in an amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in Quetico's Gross Revenue for the previous fiscal year, subject to a maximum increase of 10% and a maximum decrease of 20%. Distributions on the Quetico Units are receivable monthly and are denominated in US dollars.

Quetico has the option at any time after November 22, 2014 to repurchase all (but not less than all) of the Quetico Units at a pre-negotiated premium to the original purchase price.

**II – Intangible Assets**

**(a) Investment in End of the Roll Carpet and Vinyl ("End of the Roll"):**

On May 1, 2005, the Corporation purchased certain intellectual property (the "ER IP") from End of the Roll for an aggregate purchase price of \$7.2 million pursuant to an acquisition agreement (the "ER Acquisition Agreement") dated May 1, 2005 (the "End of the Roll Investment"). The ER IP includes End of the Roll's trademarks, trade names, website, and proprietary system for operating franchises. The ER IP was subsequently licensed to End of the Roll for a term (the "Term") of 80 years pursuant to a license agreement (the "ER License Agreement") dated May 1, 2005 in consideration of an annual royalty (the "Royalty"). The Royalty for the first 12-month period from May 1, 2005 to April 30, 2006 was \$1.2 million (the "Initial Royalty"). The Royalty for each subsequent 12-month period during the Term is calculated by increasing or decreasing the Royalty for End of the Roll's fiscal year just ended by the percentage change in Same Store Sales (as defined in the ER License Agreement), being generally the total sales of all franchisee retail stores that have been open for at least two years, over the fiscal year immediately preceding the fiscal year just ended. Royalty payments are receivable monthly.

End of the Roll has the option at any time after May 1, 2010 to repurchase the ER IP (and terminate the Royalty) at a pre-negotiated premium to the original purchase price.



## Alaris Royalty Corp.

Notes to Consolidated Financial Statements  
Year ended December 31, 2011

### 5. Investments (continued):

#### (b) Investment in MEDlchair Ltd. ("MEDlchair"):

On September 12, 2005, the Corporation purchased certain intellectual property (the "MEDlchair IP") from MEDlchair for an aggregate purchase price of \$6.5 million (the "MEDlchair Investment") pursuant to an acquisition agreement (the "MEDlchair Acquisition Agreement") dated September 12, 2005. The MEDlchair IP was subsequently licensed to MEDlchair for a term (the "Term") of 80 years pursuant to a license agreement (the "MEDlchair License Agreement") in 2005 in consideration of an annual royalty (the "Royalty"). From September 12, 2005 through June 9, 2011, the Corporation collected \$6.33 million in royalties from MEDlchair.

On June 9, 2011, the Corporation sold all of the MEDlchair intellectual property for \$10,000,000, a 54% premium to its original cost. Carrying value prior to the sale included amortization of \$475,318 and was \$6.1 million resulting in a \$3.8 million gain in the period.

### 6. Income tax expense:

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The Corporation's consolidated effective tax rate for the year ended December 31, 2011 was 26.5% (year ended December 31, 2010 – 28.0%). The change in effective tax rate is in line with the Canadian government's gradual reduction in the corporate income tax rate.

Income tax expense is calculated by using the combined federal and provincial statutory income tax rates. The provision for income tax (deferred and current) differs from that which would be expected by applying statutory rates. A reconciliation of the difference is as follows:

	Year ended Dec 31	
	2011	2010
Earnings before income taxes	\$ 42,441,666	\$ 10,812,335
Combined federal and provincial statutory income tax rate	26.5%	28.0%
Expected income tax provision	\$ 11,247,041	\$ 3,027,454
Non-deductible expense	(571,013)	348,196
LP asset – fair value	(2,020,562)	-
Intangibles	(625,000)	-
Rate changes and other	(301,244)	(35,469)
	\$ 7,729,222	\$ 3,411,119

## Alaris Royalty Corp.

Notes to Consolidated Financial Statements  
Year ended December 31, 2011

### 6. Income tax expense (continued):

The income tax effect of the temporary differences that give rise to the Corporation's deferred income tax assets and liabilities are as follows:

	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Deferred income tax assets (liabilities):			
Non-capital losses and unclaimed scientific research and development expenses ("SRED")	\$ 15,280,271	\$ 24,124,260	\$ 27,404,431
Equipment	94,504	90,527	93,943
Share issue costs	1,296,091	1,313,175	962,065
Intangible assets	(1,665,285)	(1,446,292)	(1,489,600)
Investment tax credits	(2,730,598)	(2,730,598)	(2,752,502)
Preferred partnership units	1,693,001	(3,192,880)	(1,400,170)
	\$ 13,967,984	\$ 18,158,192	\$ 22,454,167

As at December 31, 2011, the Corporation has \$2,989,609 in non-capital losses available to reduce income tax in future years that expire in 2025 or later.

As at December 31, 2011, the Corporation has unused federal investment tax credits which expire from time to time as follows:

2017	\$ 133,652
2018	150,798
2019	1,623,342
2020	1,935,046
2021	1,295,097
2022	3,296,237
2023	1,840,597
2024	647,624
	\$ 10,922,393

The Corporation has research and development expenditures not deducted at the end of the year, to be deducted over an indefinite period for an amount of \$58,131,473.

Movement in deferred tax balances during the year	Deferred Income Taxes
Balance at January 1, 2010	\$ 22,454,167
Recognized in profit and loss	(3,306,784)
Recognized directly in equity	808,519
Recognized in other comprehensive income	(1,797,710)
Balance at December 31, 2010	\$ 18,158,192
Recognized in profit and loss	(7,561,243)
Recognized directly in equity	555,694
Recognized in other comprehensive income	2,865,317
Balance at December 31, 2011	\$ 14,017,960

## Alaris Royalty Corp.

Notes to Consolidated Financial Statements  
Year ended December 31, 2011

### 7. Equipment:

Equipment consists of leasehold improvements, furniture and fixtures, and computer equipment. The amounts are net of accumulated depreciation of \$137,234 (December 31, 2010 - \$121,327). During the year ended December 31, 2011, the Corporation acquired assets with a cost of \$12,979.

### 8. Share capital:

Issued Common Shares	Number of Shares	Amount
Balance at December 31, 2009 (Voting shares)	10,799,098	\$ 103,663,148
Issued in lieu of dividends on restricted share units	14,191	138,050
Issued upon RSUs vesting to Directors	31,250	375,000
Warrants exercised in the period	598,400	4,488,000
Fair value of warrants exercised in the period	-	439,694
Issued by short form prospectus in May 2010	1,840,000	16,560,000
Short form prospectus costs in May 2010	-	(1,239,548)
Income tax benefit of share issue costs	-	326,373
Issued by short form prospectus in Dec 2010	2,477,000	26,008,500
Short form prospectus costs in Dec 2010	-	(1,839,035)
Income tax benefit of share issue costs	-	476,567
Tax rate reconciliation of share issue costs	-	5,579
Balance at December 31, 2010 (Voting shares)	15,759,939	\$ 149,402,328
Non-voting shares	666,665	8,000,000
Balance at December 31, 2010 (Voting, non-voting)	16,426,604	\$ 157,402,328
Issued in lieu of dividends on restricted share units	10,331	152,550
Warrants exercised in the period	531,850	3,988,875
Fair value of warrants exercised in the period	-	390,794
Options exercised in the period	10,375	126,696
Non-voting shares converted to voting	(666,665)	-
Non-voting shares converted to voting	666,665	-
Issued by short form prospectus in Dec 2011	2,464,800	40,053,000
Short form prospectus costs in Dec 2011	-	(2,222,777)
Income tax benefit of share issue costs	-	555,694
Issued upon RSUs vesting to Directors	31,250	375,000
Balance at December 31, 2011 (Voting)	19,475,210	\$ 200,822,160
	<b>Number of</b>	<b>Amount</b>
<b>Issued Warrants</b>	<b>Warrants</b>	
Balance at December 31, 2009	1,150,000	\$ 845,000
Exercised during 2010	(598,400)	(439,694)
Balance at December 31, 2010	551,600	\$ 405,306
Exercised during 2011	(531,850)	(390,794)
Expired during 2011	(19,750)	(14,512)
Balance at December 31, 2011	-	\$ -

## Alaris Royalty Corp.

Notes to Consolidated Financial Statements  
Year ended December 31, 2011

### 8. Share capital (continued):

#### *Issue of common shares*

In the year ended December 31, 2011, the Corporation issued: 2,464,800 shares by way of short form prospectus; 531,850 shares as a result of the exercise of warrants; 10,375 shares as a result of the exercise of options; 10,331 shares under the Restricted Share Unit ("RSU") Plan; and 31,250 shares that vested to Directors under the RSU Plan. During the year ended December 31, 2011, at the Annual General Meeting, shareholders approved conversion of 666,665 non-voting shares to voting shares.

The Corporation has authorized, issued and outstanding, 19,475,210 voting common shares as at December 31, 2011.

The warrants were exercisable at \$7.50 at any time up to twenty-four (24) months from the date of their issue (October 22, 2009), subject to a mandatory exercise if, at the Corporation's option, any time after twelve (12) months from their issue, if the volume weighted average price of the voting common shares on the Toronto Stock Exchange is above \$9.00 per common share for twenty (20) consecutive trading days. The warrants expired in October.

	2011	2010
Weighted average shares outstanding, basic	17,036,346	13,104,165
Effect of outstanding options	174,994	163,314
Effect of outstanding RSUs	384,400	384,400
Weighted average shares outstanding, fully diluted	17,595,740	13,651,879

#### *Dividends*

The following dividends were declared and paid by the Corporation:

For the first eleven months of 2011, the Corporation declared a dividend of \$0.085 per common share, and in December declared a dividend of \$0.095 per common share (\$18,014,242 in aggregate). For the year ended December 31, 2010, dividends of \$12,628,487 were declared.

### 9. Debt:

The Corporation has a \$30,100,000 secured revolving credit facility with a syndicate of Canadian chartered banks. In June 2011, the Corporation repaid the outstanding balance of \$26,200,000 out of proceeds from the sale of MEDiChair and the reduction of its interest in LifeMark Health. The Corporation then drew on a temporarily extended facility of \$44,000,000 in October 2011 to fund a further contribution into KMH and the original contribution to Quetico. From funds out of the December 2011 public offering, the Corporation then repaid \$37,500,000 of that debt and at December 31, 2011 has \$6,500,000 in senior debt outstanding. Interest is payable at the lenders' prime rate plus 3.0% (6.0% at December 31, 2011). 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 December 31, 2011, the Corporation is in compliance with each of the covenants based on a letter received by the Corporation from the

## Alaris Royalty Corp.

Notes to Consolidated Financial Statements  
Year ended December 31, 2011

### 9. Debt (continued):

lending syndicate clarifying the exclusion of certain non-cash and extraordinary amounts in the calculation of the covenants for the remainder of the term of the agreement.

During 2010, the Corporation repaid in full a \$6,500,000 unsecured demand facility with a company controlled by its largest shareholder. Interest was payable at 13.00% per annum.

<b>Total Debt Continuity</b>	<b>Amount</b>
Balance at January 1, 2010	\$ 29,050,000
Senior debt repayment, March 2010	(950,000)
Subordinate debt repayment, May 2010	(5,300,000)
Senior debt repayment, June 2010	(950,000)
Senior debt repayment, September 2010	(950,000)
Subordinated debt repayment, December 2010	(1,200,000)
Senior debt advance, December 2010	9,500,000
Balance at December 31, 2010	\$ 29,200,000
Senior debt repayment, February 2011	\$ (3,000,000)
Senior debt repayment, June 2011	(26,200,000)
Senior debt advance, October 2011	14,500,000
Senior debt advance, November 2011	29,500,000
Senior debt repayment, December 2011	(37,500,000)
Balance at December 31, 2011	\$ 6,500,000

### 10. 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 December 31, 2011. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (290,650) do not vest until the end of the three-year period 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 will be 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 year ended December 31, 2011, the Corporation incurred stock-based compensation expenses of \$1,978,727 (2010 - \$1,817,981) which includes: \$1,247,452 (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2010 - \$1,521,424); \$152,550 (non-cash expense) for shares issued in the year in lieu of dividends under the RSU Plan (2010 - \$138,050); and \$578,725 (non-cash expense) for the amortization of the fair

## Alaris Royalty Corp.

Notes to Consolidated Financial Statements  
Year ended December 31, 2011

### 10. Share-based payments (continued):

value of outstanding stock options (2010 - \$158,507). 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 December 31, 2011, have an exercise price in the range of \$7.27 to \$16.87 and a weighted average contractual life of 3.7 years (2010 – 4.0 years).

	Weighted Avg Exercise Price 2011	Number of Options 2011	Weighted Avg Exercise Price 2010	Number of Options 2010
Outstanding at January 1	\$11.01	610,150	\$10.52	319,150
Exercised during the year	10.86	(10,375)	-	-
Granted during the year	16.32	330,000	11.56	291,000
Outstanding at December 31	12.96	929,775	11.01	610,150
Exercisable at December 31	\$11.06	279,956	\$11.12	134,575

The fair value of the options was calculated using a Black-Scholes model with the following assumptions:

	Oct 2008	Dec 2009	Dec 2010	Aug 2011	Dec 2011
Dividend yield	12.00%	10.50%	8.72%	6.68%	6.79%
Expected volatility	38.00%	56.0%	51.79%	46.49%	45.08%
Risk free rate of return	2.66%	2.21%	2.23%	1.61%	1.16%
Expected life	4.325	4.325	4.325	4.325	4.325
Weighted average value	\$ 1.2840	\$ 1.5639	\$ 2.5887	\$ 3.5070	\$ 3.5666

### 11. Related parties:

In 2011, the Corporation formed a wholly-owned subsidiary, Alaris Cooperatief, U.A., a cooperative in The Netherlands. The Corporation also formed a wholly-owned subsidiary, Alaris USA Inc, a Delaware Corporation. All intercompany loans, interest and dividends have been eliminated upon consolidation.

In 2010, the Corporation had a \$6.5 million demand loan owing to a company controlled by the Corporation's largest shareholder. The loan was repaid before the end of 2010. For the year ended December 31, 2010, the Corporation paid interest of \$410,515 to this company.

In addition to their salaries, the Corporation also provides long-term compensation in the form of options and RSUs. Key management personnel compensation comprised the following:

	2011	2010
Base salaries and benefits	638,610	625,934
Bonus	900,000	172,500
Share-based payments (non-cash)	1,504,175	1,407,940
	3,042,785	2,206,374

## Alaris Royalty Corp.

Notes to Consolidated Financial Statements

Year ended December 31, 2011

### 12. 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	\$	159,851
2012		166,354
2013		166,354
2014		166,354
2016		152,491
	\$	811,406

### 13. Explanation of transition to IFRS:

As stated in note 1, these are the Corporation's consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Corporation's date of transition).

In preparing its opening IFRS statement of financial position, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from previous GAAP to IFRS has affected the Corporation's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

## Alaris Royalty Corp.

Notes to Consolidated Financial Statements  
Year ended December 31, 2011

### Reconciliation of equity

Note	Previous	Effect of	IFRSs	Previous	Effect of	IFRSs
	GAAP	Transition To IFRSs 1 January 2010		GAAP	Transition To IFRSs 31 December 2010	
<b>Assets</b>						
Cash and cash equivalents	3,826,000	-	3,826,000	1,816,868	-	1,816,868
Prepayments	103,472	-	103,472	343,184	-	343,184
Trade and other receivables	2,470	-	2,470	688,514	-	688,514
Current tax assets	d 2,996,000	(2,996,000)	-	-	-	-
<b>Current assets</b>	<b>6,927,942</b>	<b>(2,996,000)</b>	<b>3,931,942</b>	<b>2,848,566</b>	<b>-</b>	<b>2,848,566</b>
Equipment	74,477	-	74,477	69,671	-	69,671
Intangible assets	13,070,150	-	13,070,150	12,896,916	-	12,896,916
Preferred LP Units	c 111,124,642	11,161,358	122,286,000	157,363,963	25,543,037	182,907,000
Investment tax receivable	11,030,007	-	11,030,007	10,922,393	-	10,922,393
Deferred income taxes	d 22,248,900	205,267	22,454,167	25,527,962	(7,369,770)	18,158,192
<b>Non-current Assets</b>	<b>157,548,176</b>	<b>11,366,625</b>	<b>168,914,801</b>	<b>206,780,905</b>	<b>18,173,267</b>	<b>224,954,172</b>
<b>Total assets</b>	<b>164,476,118</b>	<b>8,370,625</b>	<b>172,846,743</b>	<b>209,629,471</b>	<b>18,173,267</b>	<b>227,802,738</b>
<b>Liabilities</b>						
Loans and borrowings	19,700,000	-	19,700,000	29,200,000	-	29,200,000
Deferred credit	b 23,661,017	(23,661,017)	-	20,795,507	(20,795,507)	-
Deferred income taxes	d 1,347,755	(1,347,755)	-	4,176,890	(4,176,890)	-
<b>Non-current liabilities</b>	<b>44,708,772</b>	<b>(25,008,772)</b>	<b>19,700,000</b>	<b>54,172,397</b>	<b>(24,972,397)</b>	<b>29,200,000</b>
Current tax liabilities	47,808	(47,808)	-	-	-	-
Trade payables	939,085	-	939,085	1,421,992	-	1,421,992
Dividends payable	802,604	-	802,604	1,396,262	-	1,396,262
Loans and borrowings	9,350,000	-	9,350,000	-	-	-
<b>Current liabilities</b>	<b>11,139,497</b>	<b>(47,808)</b>	<b>11,091,689</b>	<b>2,818,254</b>	<b>-</b>	<b>2,818,254</b>
<b>Total liabilities</b>	<b>55,848,269</b>	<b>(25,056,580)</b>	<b>30,791,689</b>	<b>56,990,651</b>	<b>(24,972,397)</b>	<b>32,018,254</b>
<b>Equity</b>						
Share capital	111,125,039	538,109	111,663,148	156,858,637	543,691	157,402,328
Warrants	845,000	-	845,000	405,306	-	405,306
Equity reserve	a 1,471,333	398,568	1,869,901	2,831,112	343,719	3,174,831
Fair value reserve	-	9,766,188	9,766,188	-	22,350,157	22,350,157
Retained earnings	d (4,813,523)	22,724,340	17,910,817	(7,456,235)	19,908,097	12,451,862
<b>Total equity</b>	<b>108,627,849</b>	<b>33,427,205</b>	<b>142,055,054</b>	<b>152,638,820</b>	<b>43,145,664</b>	<b>195,784,484</b>
<b>Total Liabilities and Equity</b>	<b>164,476,118</b>	<b>8,370,625</b>	<b>172,846,743</b>	<b>209,629,471</b>	<b>18,173,267</b>	<b>227,802,738</b>



## Alaris Royalty Corp.

Notes to Consolidated Financial Statements  
Year ended December 31, 2011

### Reconciliation of comprehensive income for the year ended December 31, 2010

	Note	Previous GAAP	Effect of Transition To IFRSs	IFRSs
<b>Revenues</b>				
Royalties and distributions		\$16,657,034	-	\$16,657,034
Interest and other		2,190	-	2,190
<b>Total Revenue</b>		<u>16,659,224</u>	-	<u>16,659,224</u>
Salaries and benefits		1,060,915	-	1,060,915
Corporate and office		626,990	-	626,990
Legal and accounting fees		443,262	-	443,262
Stock-based compensation	a	226,105	(226,105)	-
Non-cash stock-based compensation	a	1,872,830	(54,849)	1,817,981
Depreciation and amortization		190,028	-	190,028
<b>Subtotal</b>		<u>4,420,130</u>	<u>(280,954)</u>	<u>4,139,176</u>
<b>Earnings from operations</b>		<u>12,239,094</u>	<u>280,954</u>	<u>12,520,048</u>
Finance cost		1,707,713	-	1,707,713
<b>Earnings before taxes</b>		<u>10,531,381</u>	<u>280,954</u>	<u>10,812,335</u>
Deferred income tax expense		545,609	2,865,510	3,411,119
<b>Earnings</b>		<u>\$9,985,772</u>	<u>(2,584,556)</u>	<u>\$7,401,216</u>
<b>Other comprehensive income</b>				
Net change in fair value of available-for-sale financial assets	c	-	14,381,679	14,381,679
Tax impact of fair value adjustment		-	(1,797,710)	(1,797,710)
<b>Other comprehensive income for the period, net of income tax</b>		-	<u>12,583,969</u>	<u>12,583,969</u>
<b>Total comprehensive income for the period</b>		<u>\$9,985,772</u>	<u>9,999,413</u>	<u>\$19,985,185</u>
<b>Earnings per share</b>				
Basic earnings per share		<u>\$0.76</u>	<u>(\$0.20)</u>	<u>\$0.56</u>
Diluted earnings per share		<u>\$0.73</u>	<u>(\$0.19)</u>	<u>\$0.54</u>

## Alaris Royalty Corp.

Notes to Consolidated Financial Statements  
Year ended December 31, 2011

### Reconciliation of statement of cash flows for the year ended December 31, 2010

	Note	Previous GAAP	Effect of Transition To IFRSs	IFRSs
<b>Cash flows from operating activities</b>				
Earnings for the year	a,b	\$9,985,772	\$(2,584,556)	\$7,401,216
Adjustments for:				
Finance costs		1,513,863	-	1,513,863
Deferred income taxes	b	545,609	2,865,510	3,411,119
Depreciation and amortization		190,028	-	190,028
Non-cash stock based compensation	a	1,872,830	(54,849)	1,817,981
		14,108,102	226,105	14,334,207
Change in non-cash working capital		(442,850)	-	(442,850)
Cash generated from operating activities		13,665,252	226,105	13,891,357
Finance costs		(1,513,863)	-	(1,513,863)
<b>Net cash from operating activities</b>		<b>\$12,151,389</b>	<b>\$226,105</b>	<b>\$12,377,494</b>
<b>Cash flows from investing activities</b>				
Acquisition of equipment		(11,989)	-	(11,989)
Acquisition of Preferred LP Units		(46,239,320)	-	(46,239,320)
<b>Net cash used in investing activities</b>		<b>\$(46,251,309)</b>	<b>-</b>	<b>\$(46,251,309)</b>
<b>Cash flows from financing activities</b>				
New share capital, net of share issue costs		39,487,617	-	39,487,617
Proceeds from exercise of warrants		4,488,000	-	4,488,000
Proceeds from debt		9,500,000	-	9,500,000
Repayment of debt		(9,350,000)	-	(9,350,000)
Dividends to shareholders		(12,034,829)	-	(12,034,829)
Payments in lieu of dividends on RSUs	a	-	(226,105)	(226,105)
<b>Net cash from/(used in) financing activities</b>		<b>\$32,090,788</b>	<b>\$(226,105)</b>	<b>\$31,864,683</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(2,009,132)</b>	<b>-</b>	<b>(2,009,132)</b>
<b>Cash and cash equivalents, Beginning of year</b>		<b>3,826,000</b>	<b>-</b>	<b>3,826,000</b>
<b>Cash and cash equivalents, End of year</b>		<b>\$1,816,868</b>	<b>\$-</b>	<b>\$1,816,868</b>

## Alaris Royalty Corp.

Notes to Consolidated Financial Statements  
Year ended December 31, 2011

### Notes to the reconciliations

- (a) Previously under GAAP, the Company accounted for share based payments by allocating expenses for each option issuance on a straight-line basis. Under IFRS, the related expense has been adjusted to reflect graded vesting of the outstanding share-based payments. Additionally, payments in lieu of dividends on RSUs were previously expensed under GAAP and now are recorded as dividends under IFRS. The impact arising from the change is summarized as follows:

	1 January 2010	31 December 2010
<b>Consolidated statement of comprehensive income</b>		
Non-cash stock based compensation expenses		\$ (54,849)
Stock based compensation expenses		(226,105)
<b>Adjust before income tax</b>		<u>(280,954)</u>
<b>Consolidated statement of financial position</b>		
Contributed surplus	\$ 398,568	280,954
Related tax effect	(115,585)	(81,477)
<b>Adjustment to retained earnings</b>	<u>\$ 282,983</u>	<u>\$ 199,477</u>

- (b) Previously under GAAP, as a result of accounting for a reverse takeover in July 2008, the Company recorded a deferred credit on its Balance Sheet. IFRS does not recognize the existence of the deferred credit thus it is immediately written off against retained earnings. The impact arising from the change is summarized as follows:

	1 January 2010	31 December 2010
<b>Consolidated statement of financial position</b>		
Deficit/Retained earnings	\$ 23,661,017	\$ 20,795,507
<b>Adjustment to retained earnings</b>	<u>\$23,661,017</u>	<u>\$ 20,795,507</u>

- (c) In accordance with IFRS, financial assets designated as available-for-sale have been recognized at fair value. Under GAAP, these assets were previously carried at cost. The impact arising from the change is summarized as follows:

	1 January 2010	Year ended 31 Dec 2010
<b>Consolidated statement of comprehensive income</b>		
Net change in fair value of available for sale assets		\$14,381,679
<b>Adjust before income tax</b>		<u>14,381,679</u>
<b>Consolidated statement of financial position</b>		
Preferred LP Units	\$ 11,161,358	14,381,679
Related tax effect	(1,395,170)	(1,797,710)
<b>Adjustment to retained earnings</b>	<u>\$ 9,766,188</u>	<u>\$ 12,583,969</u>

- (d) In accordance with IFRS, no deferred income tax balances are shown as current on the consolidated statement of financial position.