Unaudited Condensed Consolidated Interim Financial Statements of

ALARIS ROYALTY CORP.

For the three months ended March 31, 2013

Alaris Royalty Corp.

Condensed consolidated statement of financial position (unaudited)

	Note	March 31 2013	December 31 2012
Assets			
Cash and cash equivalents		$6,009,865	$3,638,255
Prepayments		40,349	182,811
Trade and other receivables		2,842,934	3,417,642
Current Assets		8,893,148	7,238,708
Promissory note receivable		7,250,000	1,250,000
Equipment		56,188	59,881
Intangible assets	4	6,547,467	6,570,201
Preferred LP Units	4	314,341,599	298,226,402
Investment tax credit receivable		10,922,393	10,922,393
Deferred income taxes		7,330,415	8,673,125
Non-current assets		346,448,062	325,702,002
Total Assets		$355,341,210	$332,940,710
Liabilities			
Accounts payable and accrued liabilities		$536,770	$1,805,561
Dividends payable		2,646,957	2,345,347
Income taxes payable		341,837	40,585
Loans and borrowings	6,10	1,166,667	-
Current Liabilities		4,692,231	4,191,493
Loans and borrowings	6,10	12,833,333	50,000,000
Non-current liabilities		12,833,333	50,000,000
Total Liabilities		$17,525,564	$54,191,493
Equity			
Share capital	5	$311,803,545	$252,016,172
Equity reserve		3,147,009	2,930,483
Fair value reserve		2,336,689	2,336,689
Translation reserve		38,823	(265,220)
Retained Earnings		20,489,580	21,731,093
Total Equity		$337,815,646	$278,749,217
Total Liabilities and Equity		$355,341,210	$332,940,710

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Alaris Royalty Corp.

Condensed consolidated statement of comprehensive income (unaudited)

For the three months ended March 31

	Note	2013	2012
Revenues			
Royalties and distributions	4	$10,766,230	$6,931,784
Interest		196,899	-
Gain/(loss) on foreign exchange contracts		(155,653)	106,534
Total Revenue		10,807,476	7,038,317
Salaries and benefits		290,773	232,810
Corporate and office		384,217	307,157
Legal and accounting fees		153,575	185,327
Non-cash stock-based compensation	7	729,698	349,488
Depreciation and amortization		26,427	26,539
Subtotal		1,584,690	1,101,321
Earnings from operations		9,222,786	5,936,996
Finance cost		595,061	116,178
Unrealized foreign exchange (gain)/ loss		(459,780)	325,988
Earnings before taxes		9,087,505	5,494,830
Deferred income tax expense		2,076,180	1,400,958
Current income tax expense		321,937	137,232
Earnings		$6,689,388	$3,956,640
Other comprehensive income			
Foreign currency translation differences		304,043	(209,616)
Other comprehensive income for the period, net of income tax		304,043	(209,616)
Total comprehensive income for the period		$6,993,431	$3,747,024
Earnings per share			
Basic earnings per share		$0.27	$0.20
Fully diluted earnings per share		$0.26	$0.20
Weighted average shares outstanding			
Basic		24,715,021	19,476,369
Fully Diluted		25,329,889	20,135,586

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 changes in equity (unaudited)

For the three months ended March 31, 2013

	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2013		$252,016,172	$2,930,483	$2,336,689	$(265,220)	$21,731,093	$278,749,217
Total comprehensive income for the period							
Earnings for the period		-	-	-	-	6,689,388	6,689,388
Other comprehensive income							
Foreign currency translation differences		-	-	-	304,043	-	304,043
Total other comprehensive income		-	-	-	304,043	-	304,043
Total comprehensive income for the period		$-	$-	$-	$304,043	$6,689,388	6,993,431
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	$-	$729,698	$-	$-	$-	$729,698
Dividends to shareholders	5	-	-	-	-	(7,898,919)	(7,898,919)
Options exercised in the period	5	2,627,026	(294,422)	-	-	-	2,332,604
Payments in lieu of dividends on RSUs	7	-	-	-	-	(64,631)	(64,631)
Shares issued after director RSU vesting	5	218,750	(218,750)	-	-	-	-
Shares issued in the period	5	59,142,000	-	-	-	-	59,142,000
Share issue costs, net of tax	5	(2,200,403)	-	-	-	32,649	(2,167,754)
Total transactions with Shareholders of the Company		59,787,373	216,526	-	-	(7,930,901)	52,072,998
Balance at March 31, 2013		$311,803,545	$3,147,009	$2,336,689	$38,823	$20,489,580	$337,815,646

Alaris Royalty Corp.

Condensed consolidated statement of cash flows (unaudited)

For the three months ended March 31

	Note	2013	2012
Cash flows from operating activities			
Earnings from the period		$6,689,388	$3,956,640
Adjustments for:			
Finance costs		595,061	116,178
Deferred income taxes		2,076,180	1,400,958
Depreciation and amortization		26,427	26,539
Unrealized foreign exchange (gain)/loss		(459,780)	325,988
(Gain)/Loss on foreign exchange contracts		155,653	(106,534)
Non-cash stock based compensation	7	729,698	349,488
		$9,812,627	$6,069,257
Change in:			
-trade and other receivables		$451,168	$3,082,362
-prepayments		142,462	38,268
-trade and other payables		(967,539)	(1,066,494)
Cash generated from operating activities		9,438,718	8,123,393
Finance costs		(595,061)	(116,178)
Net cash from operating activities		$8,843,657	$8,007,215
Cash flows from investing activities			
Acquisition of equipment		$-	$(4,665)
Acquisition of Preferred LP Units	4	(15,350,837)	(210,223)
Net cash used in investing activities		$(15,350,837)	$(214,888)
Cash flows from financing activities			
Proceeds from debt	6	15,000,000	-
Repayment of debt	6	(51,000,000)	(2,000,000)
Promissory notes issued		(6,000,000)	-
New share capital, net of share issue costs	5	56,208,127	-
Proceeds from exercise of options	5	2,332,604	-
Dividends paid	5	(7,597,310)	(5,550,656)
Payments in lieu of dividends on RSUs	7	(64,631)	(68,146)
Net cash used in financing activities		$8,878,790	$(7,618,802)
Net increase in cash and cash equivalents		$2,371,610	$173,525
Cash and cash equivalents, Beginning of period		3,638,255	3,888,465
Cash and cash equivalents, End of period		$6,009,865	$4,061,990

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, 2013 comprise the financial statements of the Company and its subsidiaries (together referred to as the "Corporation"). The Corporation's Canadian operations are conducted through a partnership. The Corporation's American operations are conducted through a Delaware Corporation 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 May 3, 2013.

(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.

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.

Utilization of tax losses

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

2. Statement of compliance (continued):

Income taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Management reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

3. Significant accounting policies:

Effective January 1, 2013, the Corporation adopted IFRS 10, 11, 12 and 13. These new standards do not affect the recognition or measurement of any items in the Corporation's Financial Statements. Disclosure requirements under IFRS 13 have been provided in Note 8. There have been no other changes to the Corporation's accounting policies from those disclosed in the consolidated Financial Statements of the Corporation for the years ended December 31, 2012 and 2011.

These condensed consolidated interim financial statements were prepared on the same basis of the audited financial statements for the year ending December 31, 2012.

4. Investments

Available for Sale Financial Assets:

March 31, 2013		Acquisition Cost		Capitalized Cost		Net Cost		Fair Value
LifeMark Health	$	36,450,000	$	499,894	$	36,949,894	$	65,500,000
LMS		51,000,000		333,280		51,333,280		25,800,000
Solowave		32,500,000		511,253		33,011,253		31,500,000
KMH		54,800,000		504,513		55,304,513		55,376,519
Killick		36,250,000		257,544		36,507,544		37,600,000
Quetico		27,330,400		860,337		28,190,737		28,190,737
Labstat		41,200,000		518,944		41,718,944		41,718,944
Agility Health		12,700,000		594,219		13,294,219		13,294,219
SHS		15,000,000		361,180		15,361,180		15,361,180
	$	307,230,400	$	4,441,164	$	311,671,564	$	314,341,599
December 31, 2012								
LifeMark Health	$	36,450,000	$	499,894	$	36,949,894	$	65,500,000
LMS		51,000,000		333,280		51,333,280		25,800,000
Solowave		32,500,000		511,253		33,011,253		31,500,000
KMH		54,800,000		504,513		55,304,513		55,376,519
Killick		36,250,000		257,544		36,507,544		37,600,000
Quetico		26,808,540		860,337		27,668,877		27,668,877
Labstat		41,200,000		518,944		41,718,944		41,718,944
Agility Health		12,457,500		604,562		13,062,062		13,062,062
	$	291,466,040	$	4,090,327	$	295,556,367	$	298,226,402

The difference in the acquisition cost of Quetico and Agility Health at December 31, 2012 and March 31, 2013 is due to foreign currency translation.

Investment in SHS Services Management, LP ("SHS"):

The Corporation holds 1,500,000 Preferred partnership units in SHS acquired on March 6, 2013 for $15 million.

Pursuant to the partnership agreement dated March 6, 2013, the SHS units entitle the Corporation to receive an annual preferred distribution in priority to distributions on SHS' other partnership units in an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in SHS' gross revenues for the previous fiscal year. Distributions on the SHS units are receivable monthly.

SHS has the option at any time after March 6, 2016 to repurchase all (but not less than all) of the units at a pre-negotiated premium to the original purchase price.

The Corporation holds intangible assets as follows:

March 31, 2013	Acquisition Cost	Capitalized Cost	Accumulated Amortization	Net Cost
End of the Roll	$ 7,200,000	$ 74,920	$ (727,453)	$ 6,547,467
December 31, 2012				
End of the Roll	$ 7,200,000	$ 74,920	$ (704,719)	$ 6,570,201

The Corporation received royalties and distributions as follows:

Three months ending March 31

	2013	2012
KMH	$ 2,067,303	$ 1,048,116
LifeMark Health	1,755,000	1,687,500
Labstat	1,545,000	-
Killick	1,442,088	1,075,000
Quetico	1,169,627	1,064,008
Solowave	1,165,600	1,240,000
LMS	584,949	479,415
Agility Health	500,375	-
End of the Roll	335,212	337,745
SHS	201,075	-
	$ 10,766,230	$ 6,931,784

5. Share capital:

In the three months ended March 31, 2013, the Corporation issued 2,461,000 shares by short form prospectus for gross proceeds of $54,142,000, 198,400 shares as a result of the exercise of options for gross proceeds of $2,332,604, 181,821 shares by a private placement to SHS management as part of the acquisition of preferred units in SHS for gross proceeds of $5,000,000, and 31,250 shares that vested to Directors under the Restricted Share Unit ("RSU") Plan. The Corporation has authorized, issued and outstanding, 25,209,113 voting common shares as at March 31, 2013.

Dividends

The following dividends were declared and paid by the Corporation:

In each of the three months in 2013, the Corporation declared a dividend of $0.105 per common share ($7,898,919 in aggregate). For the three months ended March 31, 2012, dividends of $0.095 per common share were declared ($5,550,235 in aggregate).

6. Debt:

The Corporation has a $50,100,000 secured revolving credit facility with a syndicate of Canadian chartered banks. The term out date under the credit facility is December 31, 2013. If monies are drawn, and if an extension is not received by December 31, 2013, the facility will be repaid in thirty-six equal monthly installments commencing January 31, 2014. There are financial covenants under this facility and at March 31, 2013, the Corporation is in compliance with each of the covenants. During the three months ending March 31, 2013, the Corporation voluntarily repaid $51,000,000 with funds from a share offering as well as cash flow from operations, and borrowed $15,000,000 for the acquisition of preferred units in SDS leaving a balance of $14,000,000 at March 31, 2013.

7. Share-based payments:

The Corporation has a Restricted Share Unit Plan ("RSU Plan") and a Stock Option Plan as approved by shareholders at a special shareholders meeting on July 31, 2008 that authorizes the Board of Directors to grant awards of RSUs and Options subject to a maximum of ten percent of the issued and outstanding common shares of the Corporation.

The RSU Plan will settle in voting common shares which may be issued from treasury or purchased on the Toronto Stock Exchange. The Corporation has reserved 720,886 and issued 205,181 RSUs to management and Directors as of March 31, 2013. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (111,431) do not vest until the end of the three year period (September 2015) 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 is amortized over the thirty-six month vesting period. Payments in lieu of dividends on the unvested RSUs are made monthly in cash in accordance with the Corporation's dividend policy.

For the three months ended March 31, 2013, the Corporation incurred stock-based compensation expenses of $729,698 (2012 - $349,488) which includes: $342,012 (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 (2012 - $97,974); $0 (non-cash expense) for shares issued in the period in lieu of dividends under the RSU Plan (2011 - $41,400); and $387,686 (non-cash expense) for the first quarter portion of the amortization of the fair value of outstanding stock options (2012 - $210,114). The Corporation has reserved 1,507,715 and issued 1,207,761 options that vest over a four-year period and expire in five years.

The options outstanding at March 31, 2013, have an exercise price in the range of $7.27 to $23.53 and a weighted average contractual life of 3.6 years (2012 – 3.4 years).

8. Fair Value of Financial Instruments

The Corporation's financial instruments as at March 31, 2013 and December 31, 2012 include cash and cash equivalents, trade and other receivables, promissory note receivable, Preferred LP units, accounts payable and accrued liabilities, and loans and borrowings. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity. Loans and borrowings bear interest at a floating market rate and accordingly the fair market value approximates the carrying value. The fair values of the available for sale financial assets (Preferred LP Units) are estimated by evaluating a number of different methods:

(a) A going concern value was calculated by calculating the discounted cash flow of the future expected distributions. Key assumptions used include the discount rate used in the calculation. For each individual Partner, the Corporation considered a number of different discount rate factors including what industry they operated in, the size of the company, the health of the balance sheet and the ability of the historical earnings to cover the future distributions. This was supported by the historical yield of the original investment, current investing yields, and the current yield of Alaris' publicly traded shares and of other similar public companies.

(b) A redemption or retraction value was calculated using the formula specified in each of the Partnership agreements alongside an assessment of the likelihood of a redemption of the Preferred Units.

(c) A liquidation value was calculated using the formula specified in each of the Partnership agreements while considering an estimate of the current value of the private company to determine if there would be sufficient value to cover the liquidation amount.

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 March 31, 2013 and December 31, 2012, 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 periods ended March 31, 2013 and December 31, 2012 and there were no transfers between level 1 or level 2 classified assets and liabilities.

March 31, 2013		Level 1		Level 2		Total
Cash and cash equivalents	$	6,009,865	$	-	$	6,009,865
Foreign exchange derivatives		-		(137,540)		(137,540)
Preferred LP units		-		314,341,599		314,341,599
	$	6,009,865	$	314,204,059	$	320,213,924
December 31, 2012		**Level 1**		**Level 2**		**Total**
Cash and cash equivalents	$	3,638,255	$	-	$	3,638,255
Foreign exchange derivatives		-		18,113		18,113
Preferred LP units		-		298,226,402		298,226,402
	$	3,638,255	$	298,244,515	$	301,882,770

9. Commitments:

In 2009, the Corporation signed a seven-year lease at a new location that commenced December 1, 2009, ending November 30, 2016. The Corporation's annual commitment under this lease is as follows:

2013	$	124,765
2014		166,354
2015		166,354
2016		152,491
	$	609,964

10. Subsequent events:

Subsequent to March 31, 2013, the Corporation consented to the early redemption of a portion of the preferred units in LifeMark. The Corporation received $22.5 million of proceeds from LifeMark which results in a decrease to the annual distributions from LifeMark from $7,020,000 to $4,608,550. The remainder of the units can be repurchased after June 9, 2013 with 30 days notice. Proceeds were used to repay the total outstanding debt of $14 million, leaving $8.5 million to be held for contributions to new and existing Partners.

Subsequent to March 31, 2013, the Corporation extended a short-term credit facility to Labstat for a maximum of $4.6 million ($2.1 million drawn to date) to assist them with working capital requirements through a transition period where new regulations in their industry, that are expected to increase the market they operate in, are being implemented.