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Consolidated Financial Statements of

**ALARIS ROYALTY CORP.**

Unaudited statements for the three and nine-month periods ended  
September 30, 2008 and the three and nine months ended  
September 30, 2007

# ALARIS ROYALTY CORP.

## Consolidated Balance Sheet

(Unaudited)

	September 30, 2008	December 31, 2007
<b>Assets</b>		
Current assets:		
Cash	\$ 2,247,800	\$ 1,599,339
Accounts receivable	40,197	20,207
Future income taxes (note 9)	3,941,805	-
Investment tax credit receivable (note 9)	150,798	-
	<u>6,380,600</u>	<u>1,619,546</u>
Investment tax credit receivable (note 9)	6,441,259	-
Future income taxes (note 9)	28,116,183	-
Investments (note 3)	111,411,333	111,541,258
Capital assets (note 4)	103,789	141,883
	<u>\$ 152,453,164</u>	<u>\$ 113,302,687</u>
<b>Liabilities and Shareholders' Equity/(Deficit)</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 295,167	\$ 695,526
Dividends payable	1,097,867	-
Future income taxes (note 9)	42,932	-
Bank indebtedness (note 5)	6,944,444	25,000,000
Subordinated debt (note 5)	6,500,000	90,000,000
	<u>14,880,410</u>	<u>115,695,526</u>
Bank indebtedness (note 5)	18,055,556	-
Future income taxes (note 9)	3,232,708	-
Deferred credit (note 9)	29,513,140	-
Shareholders' equity/(Deficit):		
Shareholder's capital (note 6)	99,219,331	150,000
Deficit	(12,447,981)	(2,542,839)
	<u>86,771,350</u>	<u>(2,392,839)</u>
Commitments (note 12)		
Subsequent event (note 13)		
	<u>\$ 152,453,164</u>	<u>\$ 113,302,687</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

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Director

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Director

# ALARIS ROYALTY CORP.

## Consolidated Statement of Operations and Deficit

(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
<b>Revenues:</b>				
Royalties and distributions	\$ 4,759,438	\$ 2,416,803	\$14,177,670	\$ 8,481,774
Interest and other	65,617	1,500	73,850	3,591
	<u>4,825,055</u>	<u>2,418,303</u>	<u>14,251,520</u>	<u>8,485,365</u>
<b>Expenses:</b>				
Interest	1,552,536	1,288,365	8,278,244	3,867,601
Salaries and benefits	332,899	174,972	767,810	551,682
Corporate and office	123,608	66,283	293,475	230,099
Legal and accounting fees	143,403	12,500	311,280	138,789
Restructuring and financing (note 1)	8,424,382	31,250	8,424,382	131,250
Depreciation and amortization	59,242	59,546	176,003	178,639
	<u>10,636,070</u>	<u>1,632,916</u>	<u>18,251,194</u>	<u>5,098,060</u>
Net Income (Loss) before taxes	(5,811,015)	785,387	(3,999,674)	3,387,305
Income tax expense (note 9)	1,543,735	-	1,543,735	-
Net Income (Loss) and other comprehensive income for the period	<u>(7,354,750)</u>	<u>785,387</u>	<u>(5,543,409)</u>	<u>3,387,305</u>
Deficit, beginning of period	(2,351,498)	(1,812,867)	(2,542,839)	(2,826,481)
Distributions to unitholders (note 7)	(546,000)	-	(2,166,000)	(1,560,000)
Dividends to shareholders (note 7)	(2,195,733)	-	(2,195,733)	-
Deficit, end of period	<u>\$(12,447,981)</u>	<u>\$(1,027,480)</u>	<u>\$(12,447,981)</u>	<u>\$ (999,176)</u>
Earnings per share, basic & fully diluted	(\$1.12)	\$0.52	(\$1.73)	\$2.26
Weighted average shares outstanding, basic and fully diluted	6,557,033	1,500,000	3,199,752	1,500,000

See accompanying notes to consolidated financial statements.

# ALARIS ROYALTY CORP.

## Consolidated Statement of Cash Flows

(Unaudited)

	Three months ended September 30,		Nine months ended September 30.	
	2008	2007	2008	2007
Cash provided by (used in):				
Operations:				
Net Income (Loss) for the period	\$(7,354,750)	\$ 785,387	\$(5,543,409)	\$ 3,387,305
Add non-cash item:				
Depreciation and amortization	59,242	59,547	176,003	178,639
Restructuring (note 1)	7,933,337	-	7,933,337	-
Income tax expense	1,543,735	-	1,543,735	-
	<u>2,181,564</u>	<u>844,934</u>	<u>4,109,666</u>	<u>3,565,944</u>
Change in non-cash working capital	(44,337)	(27,047)	(420,351)	(2,139,426)
	<u>2,137,227</u>	<u>817,887</u>	<u>3,689,315</u>	<u>1,426,518</u>
Investing:				
Purchase of investments	-	(15,000)	-	(15,155,100)
Disposals	-	-	-	8,893,100
Purchase of capital assets	(7,985)	(40,000)	(7,985)	(91,150)
	<u>(7,985)</u>	<u>(55,000)</u>	<u>(7,985)</u>	<u>(6,353,150)</u>
Financing:				
Distributions to unitholders	(546,000)	-	(2,166,000)	(1,560,000)
Dividends to shareholders	(1,097,867)	-	(1,097,867)	-
New share capital	51,730,998	-	51,730,998	-
Proceeds from debt	-	-	-	16,350,000
Repayment of debt	(51,500,000)	(600,000)	(51,500,000)	(9,475,000)
	<u>(1,412,869)</u>	<u>(600,000)</u>	<u>(3,032,869)</u>	<u>5,315,000</u>
Increase in cash	716,373	162,887	648,461	388,368
Cash, beginning of period	1,531,427	988,424	1,599,339	762,943
Cash, end of period	<u>\$ 2,247,800</u>	<u>\$ 1,151,311</u>	<u>\$ 2,247,800</u>	<u>\$ 1,151,311</u>

See accompanying notes to consolidated financial statements

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements

Nine months ended September 30, 2008 and nine months ended September 30, 2007

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## 1. Basis of presentation:

On July 31, 2008 Alaris Royalty Corp., formerly 6550568 Canada Inc. ("Alaris" or the "Corporation") acquired Alaris Income Growth Fund L.P. (the "Partnership") (the "Acquisition"). After the Acquisition, the former owners of the Partnership held the largest percentage (although less than 50%) of the Class A Common Voting Shares and provided the Corporation's management, therefore the Partnership was deemed to be the acquirer for accounting purposes. Accordingly, the transaction has been accounted for as a reverse takeover. The share capital of the prior year and up to July 31, 2008 was that of the Partnership. Subsequent to the transaction date, the share capital was that of the Corporation.

Pursuant to the Acquisition, Alaris acquired: (i) the 750,000 issued and outstanding units (the "Alaris L.P. Units") of the Partnership held by Alaris Commercial Trust, a trust owned by the Partnership's largest owner, by the issuance of 666,667 voting common shares in the capital of Alaris ("Common Shares"); and (ii) all of the outstanding shares of Alaris IGF Corp. ("Alaris GP"), the general partner of the Partnership, from the holders thereof, being Alaris Commercial Trust and the management team of the Corporation, who purchased their shares in Alaris GP shortly before the Acquisition pursuant to the terms of employment stock options, by issuance of 666,668 non-voting common shares in the capital of Alaris Royalty Corp. ("Non-Voting Shares"). Alaris GP owns 750,010 Partnership Units, being the remaining issued and outstanding Partnership Units, and therefore, upon the completion of the Acquisition the Corporation acquired directly and indirectly 100% of the issued and outstanding Alaris L.P. Units.

On July 31, 2008, and prior to the Acquisition, Alaris satisfied the release conditions of its previously completed subscription receipt financing and issued an aggregate of 4,607,213 Common Shares to the former holders of subscription receipts in accordance with the terms of the subscription receipts. The subscription receipts had been issued at price of \$12 per subscription receipt for aggregate gross proceeds of \$55,286,556 less share issue costs of \$3,622,225. In addition, the Corporation acquired \$83,500,000 of the Partnership's outstanding \$90,000,000 subordinated debt from 409790 Alberta Ltd. for \$51,500,000 in cash and the issuance of 2,666,667 Common Shares.

For the three months and the nine months ended September 30, 2008, the Corporation recorded restructuring and financing expenses of \$8,424,382 which is comprised of stock-based compensation expense of \$7,933,350 that represents the difference in the exercise price and fair value of management options that were granted and exercised into shares of Alaris GP prior to the Acquisition. As well, for the three months and the nine months ended September 30, 2008, the Corporation incurred \$491,032 of legal and tax due diligence costs that were expensed in the period.

Alaris will continue the business and operations of the Partnership. The Partnership's operations consist primarily of investments in operating entities, typically in the form of long-term license and royalty arrangements or preferred limited partnership interests.

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 2

Nine months ended September 30, 2008 and nine months ended September 30, 2007

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## 2. Significant accounting policies:

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

### (a) Investments:

Investments result from: (1) the direct or indirect purchase of intellectual property from various organizations/vendors and the subsequent license-back of the right for exclusive use to the vendor; or (2) the direct or indirect subscription for a preferred interest in a limited partnership; which interests provide a monthly distribution that is adjusted annually on the basis of a formula linked to revenues, gross margin, same-store sales, or other "top-line" measures as outlined in each of the respective agreements. Investments are initially recognized and measured at cost, including acquisition costs incurred after a letter of intent is signed, such as financial and legal due diligence fees relating directly to the purchase. Investments that are a royalty structure are being amortized on a straight-line basis over an 80-year period and individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Investments that are a preferred interest in a limited partnership are not amortized but will be individually reviewed for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the net book value of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the net book value of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the net book value of the asset exceeds the fair value of the asset.

### (b) Capital assets:

Capital assets are recorded at cost. Depreciation is provided for over the estimated useful lives of assets on a declining balance basis.

### (c) Revenue recognition:

Revenue consists of amounts generated by licensing intellectual property, distributions from preferred interests in a limited partnership or interest from term loans and is recognized when the monthly payments become due and are considered collectible.

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 3

Nine months ended September 30, 2008 and nine months ended September 30, 2007

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## 2. Significant accounting policies (continued):

### (d) Financial instruments:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Corporation has designated its financial instruments into the following categories applying the indicated measurement methods:

Financial Instrument	Category	Measurement Method
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Investments	Available for sale	Cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Bank indebtedness	Other liabilities	Amortized cost
Subordinated debt	Other liabilities	Amortized cost

The Corporation will assess at each reporting period whether there is a financial asset, other than those classified as held for trading, is impaired. An impairment loss, if any, is included in net earnings.

The Corporation has no embedded derivatives.

The Corporation records all transaction costs incurred, in relation to the acquisition of investments classified as "available for sale", as an additional cost of the investment.

The Corporation applies trade-date accounting for the recognition of a purchase or sale of cash equivalents and derivative contracts.

### (e) Income taxes:

The Corporation follows the asset and liability method of accounting for income taxes. The Corporation is a taxable entity under the Income Tax Act (Canada).

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 4

Nine months ended September 30, 2008 and nine months ended September 30, 2007

## 2. Significant accounting policies (continued):

(f) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Significant management estimates include valuation of investments and collectability of future royalties and distributions.

## 3. Investments:

September 30, 2008	Acquisition Cost	Capitalized Costs	Accumulated Amortization	Net Cost
Lifemark Health	\$ 46,500,000	\$ 291,362	\$ -	\$ 46,791,362
Lower Mainland Steel	51,000,000	333,280	-	51,333,280
End of the Roll	7,200,000	74,920	(318,238)	6,956,682
MEDlchair	6,500,000	83,758	(253,749)	6,330,009
	\$ 111,200,000	\$ 783,320	\$ (571,987)	\$ 111,411,333

December 31, 2007	Acquisition Cost	Capitalized Costs	Accumulated Amortization	Net Cost
Lifemark Health	\$ 46,500,000	\$ 291,362	\$ -	\$ 46,791,362
Lower Mainland Steel	51,000,000	333,280	-	51,333,280
End of the Roll	7,200,000	74,920	(250,036)	7,024,884
MEDlchair	6,500,000	83,758	(192,026)	6,391,732
	\$ 111,200,000	\$ 783,320	\$ (442,062)	\$ 111,541,258

Royalties and distributions:

	Three months ended		Nine months ended	
	September 30,		September 30.	
	2008	2007	2008	2007
Lifemark Health	\$ 1,866,366	\$ 1,809,704	\$ 5,599,098	\$ 5,429,111
Lower Mainland Steel	2,259,740	-	6,644,460	813,930
End of the Roll	353,892	343,849	1,087,499	1,023,556
MEDlchair	279,440	263,250	846,613	790,999
Palliser Lumber	-	-	-	424,178
	\$ 4,759,438	\$ 2,416,803	\$ 14,177,670	\$ 8,481,774

# **ALARIS ROYALTY CORP.**

Notes to consolidated Financial Statements, Page 5

Nine months ended September 30, 2008 and nine months ended September 30, 2007

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# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 6

Nine months ended September 30, 2008 and nine months ended September 30, 2007

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### 3. Investments (continued):

(a) Investment in LifeMark Health Limited Partnership ("LifeMark Health"):

The Corporation holds 900,000 class A preferred partnership units ("LifeMark A Units") and 4,000,000 class B preferred partnership units ("LifeMark B Units") in LifeMark Health (the "LifeMark Investment"). The 900,000 LifeMark A Units and 2,600,000 of the LifeMark B Units were acquired on December 30, 2004 for an aggregate acquisition cost of \$35 million. Alaris acquired 150,000 of the LifeMark B Units from LifeMark Health on June 15, 2005 for an aggregate acquisition cost of \$1.5 million; acquired 250,000 of the LifeMark B Units from LifeMark Health on October 1, 2005 for an aggregate acquisition cost of \$2.5 million; and acquired 750,000 of the LifeMark B units from LifeMark Health on August 1, 2006 for an aggregate acquisition cost of \$7.5 million.

Pursuant to the LifeMark Health partnership agreement (the "LifeMark Partnership Agreement") dated December 30, 2004, the LifeMark A Units entitle the Corporation to receive an annual preferred distribution (the "A Unit Preferred Distribution") in priority to distributions on LifeMark Health's other partnership units in a minimum amount of \$1.46 million. The minimum amount is adjusted in each subsequent fiscal year to the greater of (i) \$1.46 million; and (ii) the A Unit Preferred Distribution for the prior fiscal year multiplied by the percentage increase in LifeMark Health's Same Clinic Sales (as defined in the LifeMark Partnership Agreement), being generally LifeMark Health's annual revenue from clinics that have been open for at least two years, for the previous year. Distributions on the LifeMark A Units are receivable monthly.

Pursuant to the LifeMark Partnership Agreement, the LifeMark B Units entitle the Corporation to receive an annual preferred distribution (the "B Unit Preferred Distribution") in priority to distributions on LifeMark Health's other partnership units, other than the LifeMark A Units, in an amount equal to the B Unit Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in LifeMark Health's Same Clinic Sales for the previous fiscal year. Distributions on the LifeMark B Units are receivable monthly.

LifeMark Health has the option at any time after December 30, 2009 (i) to repurchase all (but not less than all) of the LifeMark A and B Preferred Units at an aggregate price equal to the total distributions for the then current fiscal year multiplied by the then current trading multiple of Alaris Royalty Corp. subject to a minimum of the aggregate purchase price of the Units (the "Repurchase Right").

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 7

Nine months ended September 30, 2008 and nine months ended September 30, 2007

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### 3. Investments (continued):

#### (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. Commencing December 21, 2007 the Corporation is entitled to a base preferred distribution of \$8.5 million over the next twelve months. The base is adjusted in each subsequent fiscal year to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in LMS' Gross Profit (as defined in the LMS Partnership Agreement). Distributions on the LMS Units are paid 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 price equal to 8.5 times the then current annual distributions subject to a minimum of the aggregate purchase price of the LMS Units (the "Repurchase Right").

#### (c) 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, proprietary system for operating franchises and all goodwill associated with its business. 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 an aggregate price equal to the total royalty for the then current fiscal year multiplied by the then current trading multiple of Alaris Royalty Corp. (see Note 9) subject to a minimum of the amount invested into End of the Roll (the "Repurchase Right").

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 8

Nine months ended September 30, 2008 and nine months ended September 30, 2007

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### 3. Investments (continued):

(c) Investment in End of the Roll Carpet and Vinyl ("End of the Roll") (continued):

If a Material Breach (as defined in the License Agreement) occurs under the ER License Agreement, End of the Roll is required to pay to the Corporation the present value (calculated using a discount rate of 5.10% per annum) of the initial Royalty for 10 years from the date of the Material Breach together with any outstanding Royalty Payments and the Corporation may elect to terminate the ER License Agreement.

(d) Investment in MEDChair Ltd. ("MEDChair"):

On September 12, 2005, the Corporation purchased certain intellectual property (the "MEDChair IP") from MEDChair for an aggregate purchase price of \$6.5 million (the "MEDChair Investment") pursuant to an acquisition agreement (the "MEDChair Acquisition Agreement") dated September 12, 2005. The MEDChair IP includes MEDChair's trademarks, trade names, website, proprietary system for operating franchises and all goodwill associated with its business. The MEDChair IP was subsequently licensed to MEDChair for a term (the "Term") of 80 years pursuant to a license agreement (the "MEDChair License Agreement") dated September 12, 2005 in consideration of an annual royalty (the "Royalty"). The Royalty for the 12-month period from October 1, 2006 to September 30, 2007 was \$1.053 million. The Royalty for each subsequent 12-month period during the Term is calculated by increasing or decreasing the Royalty in MEDChair's fiscal year just ending by the percentage change in Same Store Royalties (as defined in the MEDChair License Agreement), being generally the total annual royalties received by MEDChair from all franchisees whose retail stores have been opened for at least two years over the fiscal year immediately preceding the fiscal year just ending, subject to a maximum percentage change in any year of 10%.

If a Material Breach (as defined in the MEDChair License Agreement) occurs under the License Agreement, MEDChair is required to pay to the Corporation the present value (calculated using a discount rate of 5.5% per annum) of the then current Royalty for 10 years from the date of the Material Breach together with any outstanding Royalty Payments and the Corporation may, terminate the License Agreement.

MEDChair has the option at any time after October 1, 2010 to repurchase the MEDChair IP (and terminate the Royalty) at an aggregate price equal to the total royalty for the then current fiscal year multiplied by the then current trading multiple of Alaris Royalty Corp. subject to a minimum of the amount invested into MEDChair (the "Repurchase Right").

(e) Investment in Palliser Lumber Sales Ltd. ("Palliser Lumber"):

On April 12, 2007, the Corporation sold its investment in Palliser at its net book value to a company controlled by its largest unitholder.

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 9

Nine months ended September 30, 2008 and nine months ended September 30, 2007

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## 4. Capital assets:

Capital assets consist of leasehold improvements, furniture and fixtures, and computer equipment. The amounts are net of accumulated depreciation of \$264,342 (December 31, 2007 - \$218,263).

## 5. Bank indebtedness

The Corporation has a \$25,000,000 revolving credit facility with a syndicate of Canadian chartered banks. Interest is payable at the lenders' prime rate plus 2.00% (6.75% at September 30, 2008). The credit facility is due December 19, 2008. The Corporation is currently negotiating a renewal at similar terms. The facility carries a three-year term out option in the event the loan is not renewed therefore at September 30, 2008, ten months of the term out is shown as a current liability in the financial statements. Bank fees of \$62,500 were paid in the three and nine months ended September 30, 2008 as a result of the restructuring described in note 1 (2007 - \$437,500).

The Corporation has a \$6,500,000 demand facility with a company controlled by its largest shareholder. The loan was originally \$90,000,000 and on July 31, 2008, \$51,500,000 was repaid and \$32,000,000 was purchased for shares of the Corporation. Interest is payable at 13.00% per annum.

## 6. Shareholders equity:

The Corporation has authorized, issued and outstanding, 8,482,214 voting and 666,668 non-voting common shares.

Issued Common Shares	Number of Shares	Amount
Balance at December 31, 2006 and 2007	1,500,010	\$ 150,000
Exercise of options to purchase 50% of existing units	-	8,000,000
Repurchase and cancellation of Partnership shares (note 1)	(1,500,010)	-
Issued to former Corporation shareholders (note 1)	541,667	6,500,000
Issued by private placement	4,607,213	55,286,556
Private placement costs	-	(3,622,225)
Income tax benefit of private placement costs	-	905,000
Issued in exchange for repayment of debt	2,666,667	32,000,000
Issued for purchase of units (note 1)	666,667	-
Transfer from units of Partnership to non-voting shares of the Corporation	-	(8,000,000)
Voting shares	8,482,214	91,219,331
Non-voting shares	666,668	8,000,000
	9,148,882	\$ 99,219,331

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 10

Nine months ended September 30, 2008 and nine months ended September 30, 2007

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## 7. Dividends and Distributions:

Prior to the reorganization and for the nine months ended September 30, 2008, the Partnership paid distributions to unitholders of \$1.44 per unit (\$2,166,000 in aggregate). The Partnership paid distributions to unitholders of \$1.04 per unit (\$1,560,000 in aggregate) during the nine months ended September 30, 2007.

In each of August and September 2008, the Corporation paid a monthly dividend of \$0.12 per voting and non-voting common share (\$2,195,733 in aggregate).

## 8. Financial risk management

### (a) Credit risk and cash flow risk:

Cash flow risk is the risk that future cash flows associated with portfolio investments will fluctuate. Cash flow from portfolio investments are 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. 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 is exposed to credit related losses on current and future amounts receivable pursuant to investment agreements. In the event of non-performance by counterparties, future royalty and distributions 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. As at September 30, 2008, all amounts receivable for the period ended September 30, 2008 had been received.

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 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 September 30, 2008 and did not provide for any doubtful accounts nor was it required to write-off any receivables or investments during the nine-month period ended September 30, 2008.

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 11

Nine months ended September 30, 2008 and nine months ended September 30, 2007

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## 8. Financial risk management (continued):

### (b) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Corporation's reputation.

### (c) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Corporation's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

#### *Foreign currency exchange rate risk and commodity price risk*

The Corporation does not have any direct exposure to foreign currency exchange rate risk or commodity price risk. The Corporation had no forward exchange rate contracts or commodity price contracts in place as at or during the period ended September 30, 2008.

#### *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 September 30, 2008, if interest rates had been 1% lower with all other variables held constant, net income for the period would have been \$125,000 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 period ended September 30, 2008.

### (d) Capital management:

The Corporation has entered into a series of agreements that resulted in the Corporation becoming a publicly owned company. As a result of the recent change in circumstances of the Corporation's capital, management of the Corporation has not yet determined the objectives or policies that will be applicable for capital management in future periods.

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 12

Nine months ended September 30, 2008 and nine months ended September 30, 2007

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## 8. Financial risk management (continued):

### (e) Fair value of financial instruments:

The Corporation's financial instruments as at September 30, 2008 and December 31, 2007 include cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, bank indebtedness and subordinated debt. 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 subordinated debt is due to the Corporation's largest shareholder and, accordingly, the fair value is not readily determinable. The fair value of the investments are not readily determinable with sufficient reliability due to the lack of similar instruments in the market.

## 9. Income taxes

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

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Earnings (loss) before income taxes	\$ (3,999,674)
Combined federal and provincial statutory income tax rate	29.23%
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Expected income tax provision	(1,169,105)
Impact of restructuring	1,543,735
Non-deductible expense (recoveries)	2,318,914
Drawdown of deferred credit	(1,149,809)
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	\$ 1,543,735

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# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 13

Nine months ended September 30, 2008 and nine months ended September 30, 2007

## 9. Income taxes (continued):

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

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Future income tax assets (liabilities):	
Non-capital losses and unclaimed scientific research and development expenses ("SRED")	\$ 33,114,137
Capital assets	102,446
Intangible assets	(1,543,735)
Investment tax credits	(1,731,905)
Share issue costs	1,315,214
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	31,256,157
Valuation allowance	(2,473,809)
	<hr/>
	\$ 28,782,348

The Corporation recorded an income tax expense of \$1,543,735 for the three and nine months ended September 30, 2008 that represents the timing difference between the book value and the tax value of the two royalty investments (End of the Roll and MEDChair).

The future income taxes as presented on the balance sheet are comprised of:

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Current assets	\$ 3,941,805
Long-term assets	28,116,183
Current liabilities	(42,932)
Long-term liabilities	(3,232,708)
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	\$ 28,782,348

As at September 30, 2008, the Corporation has non-capital losses available to reduce income tax in future years that expire from time to time as follows:

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2009	\$ 20,043,391
2013	31,014,281
2014	21,537,689
2025 and later	2,517,760
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	\$ 75,113,121

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 14

Nine months ended September 30, 2008 and nine months ended September 30, 2007

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## 9. Income taxes (continued):

As at September 30, 2008, the Corporation has unused federal income tax credits which expire from time to time as follows:

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2009	\$	150,798
2010		1,623,342
2011		1,935,046
2012		1,295,247
2013		3,296,237
2014		1,840,597
2025		647,624
		<hr/>
		\$ 10,788,891

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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.

## 10. Recent accounting pronouncements not yet adopted:

The CICA's Accounting Standards Board confirmed the changeover from Canadian GAAP to IFRS (International Financial Reporting Standards) will be required for publicly accountable enterprises beginning on January 1, 2011. The impact on the Corporation is currently being reviewed.

## 11. Related party transactions:

The Corporation has a \$6.5 million demand loan with a company owned by its largest shareholder. For the three and nine months ended September 30, 2008, the Corporation paid interest of \$1,131,817 and \$6,949,850 respectively to this company (Year ended December 31, 2007 - \$352,603).

On July 31, 2008 the Corporation completed the Acquisition of Alaris LP. In connection with the Acquisition the Corporation issued 3,111,111 Common Shares and paid \$51,500,000 in cash to entities owned or controlled by a director, and the largest shareholder, of the Corporation, in exchange for \$83,500,000 of Alaris LP's subordinated debt and 750,000 units of Alaris LP. In addition, the Corporation issued 666,668 Non-Voting Shares to the management of the Corporation, in exchange for the 666,667 shares of Alaris GP, the general partner of Alaris LP, held by them.

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements, Page 15

Nine months ended September 30, 2008 and nine months ended September 30, 2007

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## 12. Commitments:

The Corporation leases its office space under a five-year lease that commenced on July 1, 2004. The lease payments over the remaining life of the lease are as follows:

Years ending December 31:

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2008	\$	90,348
2009		45,174
2010		—
2011		—

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## 13. Subsequent event:

On October 10, 2008, the Corporation held a shareholders meeting whereby a consolidation and subsequent split of the voting and non-voting common shares resulted in the repurchase of 29,911 shares at \$12 per share (\$359,935) that reduced the number of outstanding voting and non-voting common shares to 9,118,971. These 29,911 shares were held by over 5,000 shareholders, all with less than 50 common shares each.

On October 29, 2008, the Board approved the issuance of 379,400 Restricted Shares (285,650 for management, 93,750 for Directors) that vest in and over three years based on certain performance metrics and 224,150 stock options to management vesting over four years with an exercise price of \$12 per share for a fully diluted outstanding share total of 9,722,521.