Unaudited Condensed Consolidated Interim Financial Statements of

ALARIS ROYALTY CORP.

For the three months ended March 31, 2015

Alaris Royalty Corp.

Condensed consolidated statement of financial position (unaudited)

	Note	March 31 2015	December 31 2014
Assets			
Cash and cash equivalents		$23,676,816	$13,483,524
Prepayments		1,397,661	1,467,872
Income tax receivable		502,797	1,866,572
Trade and other receivables		8,290,206	5,551,730
Promissory note receivable	4	8,915,000	8,965,000
Investment tax credit receivable		7,939,212	-
Current Assets		50,721,692	31,334,698
Promissory note receivable	4	3,500,000	3,500,000
Equipment		105,458	109,565
Intangible assets	4	6,365,594	6,388,328
Preferred LP and LLC Units	4	500,487,999	527,641,735
Investment tax credit receivable		1,396,678	10,922,393
Non-current assets		511,855,729	548,562,021
Total Assets		$562,577,421	$579,896,719
Liabilities			
Accounts payable and accrued liabilities		$353,546	$1,453,661
Dividends payable		4,021,990	4,009,045
Foreign exchange contracts	8	2,865,884	1,541,630
Current Liabilities		7,241,420	7,004,336
Deferred income taxes		9,359,609	7,712,668
Loans and borrowings	6	-	35,500,000
Non-current liabilities		9,356,609	43,212,668
Total Liabilities		$16,601,029	$50,217,004
Equity			
Share capital	5	500,185,139	498,363,066
Equity reserve		9,571,008	8,858,711
Fair value reserve		(5,017,360)	(2,637,352)
Translation reserve		13,476,938	7,071,417
Retained earnings		27,760,667	18,023,873
Total Equity		$545,976,392	$529,679,715
Total Liabilities and Equity		$562,577,421	$579,896,719
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Alaris Royalty Corp.

Condensed consolidated statement of comprehensive income (unaudited)

For the three months ended March 31

	Note	2015	2014
Revenues			
Royalties and distributions	4	$18,782,040	$15,488,567
Interest and other	4	236,606	311,573
Total Revenue		19,018,646	15,800,140
Other income			
Gain on partner redemption	4	2,792,457	-
Loss on foreign exchange contracts	8	(2,048,247)	(359,629)
Total Other income		744,210	(359,629)
Salaries and benefits		503,942	337,277
Corporate and office		778,110	497,104
Legal and accounting fees		304,536	309,474
Non-cash stock-based compensation	7	1,329,335	723,062
Depreciation and amortization		29,291	26,616
Subtotal		2,945,214	1,893,533
Earnings from operations		16,817,642	13,546,978
Finance costs		784,379	1,165,137
Unrealized foreign exchange loss/(gain)		(10,766,315)	(2,897,622)
Earnings before taxes		26,799,578	15,279,463
Deferred income tax expense		3,143,226	1,650,500
Current income tax expense		1,853,587	1,682,129
Total income tax expense		4,996,813	3,332,629
Earnings		21,802,765	11,946,834
Other comprehensive income			
Foreign currency translation differences		6,405,521	1,816,590
Other comprehensive income for the period, net of income tax		6,405,521	1,816,590
Total comprehensive income for the period		$ 28,208,286	$ 13,763,424
Earnings per share			
Basic earnings per share		$0.68	$0.42
Fully diluted earnings per share		$0.66	$0.41
Weighted average shares outstanding			
Basic	5	32,155,339	28,713,974
Fully Diluted	5	32,848,703	29,363,717

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the three months ended March 31, 2014

	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2014		$413,237,576	$5,688,079	$(4,883,951)	$1,201,883	$14,515,589	$429,759,176
Total comprehensive income for the period							
Earnings for the period		-	-	-	-	11,946,834	11,946,834
Other comprehensive income							
Foreign currency translation differences		-	-	-	1,816,590	-	1,816,590
Total other comprehensive income		-	-	-	1,816,590	-	1,816,590
Total comprehensive income for the period		$-	$-	$-	$1,816,590	$11,946,834	$13,763,424
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	$-	$723,062	$-	$-	$-	$723,062
Dividends to shareholders	5	-	-	-	-	(10,339,982)	(10,339,982)
Options exercised in the period		5,453	-	-	-	-	5,453
Payments in lieu of dividends on RSUs		-	-	-	-	(85,162)	(85,162)
Total transactions with Shareholders of the Company		5,453	723,062	-	-	(10,425,144)	(9,696,629)
Balance at March 31, 2014		$413,243,029	$6,411,141	$(4,883,951)	$3,018,473	$16,037,279	$433,825,971

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the three months ended March 31, 2015

	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2015		$498,363,066	$8,858,711	$(2,637,352)	$7,071,417	$18,023,873	$529,679,715
Total comprehensive income for the period							
Earnings for the period		-	-	-	-	21,802,765	21,802,765
Other comprehensive income							
Gain on partner redemption		-	-	(2,792,457)	-	-	(2,792,457)
Tax impact on realized gain		-	-	412,449	-	-	412,449
Foreign currency translation differences		-	-	-	6,405,521	-	6,405,521
Total other comprehensive income		-	-	(2,380,008)	6,405,521	-	4,025,513
Total comprehensive income for the period		$-	$-	$(2,380,008)	$6,405,521	$21,802,765	$25,828,278
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	$-	$1,329,335	$-	$-	$-	$1,329,335
Dividends to shareholders	5	-	-	-	-	(12,065,971)	(12,065,971)
Options exercised in the period	5	1,466,073	(261,038)	-	-	-	1,205,035
Shares issued after Director RSU vesting	5	356,000	(356,000)	-	-	-	-
Total transactions with Shareholders of the Company		1,822,073	712,297	-	-	(12,065,971)	(9,531,601)
Balance at March 31, 2015		$500,185,139	$9,571,008	$(5,017,360)	$13,476,938	$27,760,667	$545,976,392

Alaris Royalty Corp.

Condensed consolidated statement of cash flows (unaudited)

For the three months ended March 31

	Note	2015	2014
Cash flows from operating activities			
Earnings from the year		$21,802,765	$11,946,834
Adjustments for:			
Finance costs		784,379	1,165,137
Deferred income tax expense		3,143,226	1,650,500
Depreciation and amortization		29,291	26,616
Gain on partner redemption		(2,792,457)	-
Unrealized loss on foreign exchange forward contract		1,324,254	359,629
Unrealized foreign exchange (gain)/loss		(10,766,315)	(2,897,622)
Non-cash stock-based compensation	7	1,329,335	723,062
		14,854,478	12,974,156
Change in:			
-trade and other receivables		(1,374,701)	(1,080,041)
-prepayments		70,211	(1,192,740)
-trade and other payables		(1,100,115)	595,631
Cash generated from operating activities		12,449,873	11,297,006
Finance costs		(784,379)	(1,165,137)
Net cash from operating activities		$11,665,494	$10,131,869
Cash flows from investing activities			
Acquisition of equipment		(2,450)	(2,394)
Acquisition of Preferred LP Units	4	(8,628)	(6,278,572)
Proceeds from partner redemptions		44,300,000	-
Net cash used in investing activities		$44,288,922	$6,280,966)
Cash flows from financing activities			
Proceeds from exercise of options	5	1,205,035	5,453
Repayment of debt	6	(35,500,000)	-
Proceeds from debt	6	-	6,000,000
Promissory notes issued	4	-	(50,000)
Promissory notes repaid	4	50,000	-
Dividends paid	5	(12,053,025)	(10,336,564)
Payments in lieu of dividends on RSUs		-	(85,192)
Net cash used in financing activities		$(46,297,990)	$(4,466,303)
Net increase in cash and cash equivalents		$9,656,426	$(615,400)
Impact of foreign exchange on cash balances		536,866	-
Cash and cash equivalents, Beginning of year		13,483,524	8,998,342
Cash and cash equivalents, End of year		$23,676,816	$8,382,942

1. **Reporting entity:**

Alaris Royalty Corporation 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, 2015 comprise 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, Alaris Cooperatief U.A. ("Alaris Cooperatief").

2. **Statement of compliance:**

(a) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting". The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. These interim financial statements should be read in conjunction with the audited financial statements and accompanying notes disclosed in the Corporation`s annual report for the year ended December 31, 2014. These interim financial statements were approved by the Board of Directors on May 6, 2015.

(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. Alaris USA has the United States dollar, while Alaris Cooperatief has the Canadian dollar as the functional currencies.

(d) Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements 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, judgments and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next twelve months are as follows:

Key judgments

A key judgment relates to the consideration of control, joint control and significant influence. The Corporation has agreements with various partners and these agreements include not only clauses as to distributions but also various protective rights. The Corporation has assessed these rights under IFRS 10 and 11 and determined that consolidation is not required.

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 8 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:

There have been no changes to the Corporation's accounting policies from those disclosed in the consolidated financial statements of the Corporation for the years ended December 31, 2014 and 2013.

These condensed consolidated interim financial statements were prepared on the same basis of the audited financial statements for the year ending December 31, 2014.

4. Investments

Preferred LP and LLC Units:

March 31, 2015	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LifeMark Health	$ 19,502,159	$ 499,894	$ 20,002,053	$ 36,920,000
LMS	54,228,822	333,280	54,562,102	33,028,822
Solowave	42,500,000	511,253	43,011,253	44,000,000
KMH	54,800,000	589,147	55,389,147	52,001,153
Labstat	47,200,000	518,944	47,718,944	46,998,944
Agility Health	25,498,860	789,669	26,288,529	26,288,529
SCR	40,000,000	487,339	40,487,339	40,487,339
Sequel	93,242,100	724,327	93,966,427	94,845,819
SMi	40,500,000	717,310	41,217,310	42,617,310
Kimco	37,043,120	1,059,242	38,102,362	38,102,362
Planet Fitness	44,401,000	788,092	45,189,092	45,197,721
	$ 498,916,061	$ 7,081,498	$ 505,934,559	$ 500,487,999

December 31, 2014	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LifeMark Health	$ 19,502,159	$ 499,894	$ 20,002,053	$ 36,920,000
LMS	54,228,822	333,280	54,562,102	33,028,822
Solowave	42,500,000	511,253	43,011,253	44,000,000
KMH	54,800,000	589,147	55,389,147	52,001,153
Killick	41,250,000	257,544	41,507,544	44,300,000
Labstat	47,200,000	518,944	47,718,944	46,998,944
Agility Health	23,358,210	723,376	24,081,586	24,081,586
SCR	40,000,000	487,339	40,487,339	40,487,339
Sequel	85,414,350	663,519	86,077,869	86,888,776
SMi	40,500,000	717,310	41,217,310	42,617,310
Kimco	33,933,320	970,317	34,903,637	34,903,637
Planet Fitness	40,673,500	713,855	41,387,355	41,387,355
Capitalized costs	-	26,813	26,813	26,813
	$ 523,360,361	$ 7,012,591	$ 530,372,952	$ 527,641,735

The difference in the acquisition cost of Agility, Sequel, Kimco and Planet Fitness at March 31, 2015 and December 31, 2014 is due to foreign currency translation.

At December 31, 2014, the Corporation held 4,125,000 preferred partnership units ("Killick Units") in Killick Aerospace Limited Partnership ("Killick") acquired for an aggregate acquisition cost of $41.25 million. On January 29, 2015, Killick repurchased those units for $44.3 million. At the time of redemption, a previously unrecognized gain on the value of these partnership units of $2.79 million was transferred from the fair value reserve in equity to the statement of comprehensive income.

Intangible Assets:

The Corporation holds intangible assets in End of the Roll, net of accumulated amortization of $909,326 (December 31, 2014 - $886,592), of $6,365,594.

The Corporation recorded royalty and distribution revenue as follows:

Royalties and distributions:

		2015		2014
Sequel	$	3,489,167	$	2,731,163
KMH		1,890,000		2,067,303
SMi		1,719,097		1,200,000
Planet Fitness		1,629,469		-
Solowave		1,622,513		1,206,036
SCR		1,600,000		1,600,000
Labstat		1,500,000		855,501
Kimco		1,450,072		-
LifeMark Health		1,028,799		989,232
LMS		998,871		843,042
Agility Health		986,311		895,490
Killick		537,715		1,678,273
End of the Roll		330,027		326,475
Quetico		-		1,096,051
	$	18,782,040	$	15,488,567

As part of being a long-term partner with the companies the Corporation holds preferred interests in, from time to time the Corporation has offered alternative financing solutions to assist with short-term needs of the individual businesses. At March 31, 2015, the following is a summary of the outstanding promissory notes:

Partner		March 31, 2015		December 31, 2014
Current				
Labstat	$	6,915,000		6,915,000
SHS		2,000,000		2,050,000
Total Current	$	8,915,000	$	8,965,000
Non-Current				
KMH		3,500,000		3,500,000
Total Non-current		3,500,000		3,500,000
Total		12,415,000		12,465,000

The terms of the various notes differ: the KMH notes (interest at 8%) can be converted to additional units at the Corporation’s option; a portion of the Labstat notes ($1.25 million note at 15% interest, remainder at 7%) can be converted to preferred units as well, but not until July 2015; and the SHS note is secured against certain assets of the SHS business and the Corporation expects to be repaid as a secured creditor out of the current receivership process.

5. Share capital:

Issued Common Shares	Number of Shares	Amount
Balance at January 1, 2014	28,693,694	$413,237,576
Issued by short form prospectus	3,274,050	87,417,135
Short form prospectus costs, net of tax	-	(3,388,299)
Issued after director RSU vesting	26,250	698,775
Options exercised in the period	78,364	123,737
Fair value of options exercised in the period	-	274,142
Balance at December 31, 2014	32,072,358	$498,363,066
Issued after director RSU vesting	28,750	356,000
Options exercised in the period	74,813	1,205,035
Fair value of options exercised in the period	-	274,142
Balance at March 31, 2015	32,175,921	$500,185,139

The Corporation has authorized, issued and outstanding, 32,175,921 voting common shares as at March 31, 2015.

	2015	2014
Weighted average shares outstanding, basic	32,155,339	30,446,449
Effect of outstanding options	432,429	384,881
Effect of outstanding RSUs	260,935	264,410
Weighted average shares outstanding, fully diluted	32,848,703	31,095,740

604,515 options were excluded from the calculation as they were anti-dilutive at March 31, 2015.

Dividends

The following dividends were declared and paid in the month following by the Corporation:

In each of the first three months of 2015, the Corporation declared a dividend of $0.125 per common share ($0.375 per share and $12,065,971 in aggregate). For the three months ended March 31, 2014, dividends of $0.36 per share and $10,339,982 in aggregate were declared.

6. Debt:

The Corporation has a $90,100,000 secured revolving credit facility with a syndicate of Canadian chartered banks. At December 31, 2014, the Corporation had $35.5 million in senior debt outstanding. The entire outstanding balance was repaid with proceeds from the Killick redemption on January 29, 2015 leaving an undrawn balance at March 31, 2015. Interest is payable at the lenders' prime rate plus 2.75% (5.75% at March 31, 2015). The term out date under the credit facility is December 31, 2015. If monies are drawn, and if an extension is not received by December 31, 2015, the facility will be repaid in thirty-six equal monthly installments commencing January 31, 2016. There are financial covenants under this facility and at March 31, 2015, the Corporation is in compliance with each of the covenants.

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 648,386 and issued 260,935 RSUs to management and Directors as of March 31, 2015. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (172,413) do not vest until the end of a three-year period (110,585 in September 2015; 43,026 in July 2016; and 13,802 in August 2017) 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 cash in accordance with the Corporation's dividend policy.

For the three months ended March 31, 2015, the Corporation incurred stock-based compensation expenses of $1,329,335 (2014 - $723,062) which includes: $797,882 (non-cash expense) for the RSU Plan expense (2014 - $436,062); and $531,453 (non-cash expense) for the amortization of the fair value of outstanding stock options (2014 - $287,036). The Corporation has reserved 2,223,305 and issued 1,865,045 options that vest over a four-year period and expire in five years.

The options outstanding at March 31, 2015, have an exercise price in the range of $11.56 to $33.87, a weighted average exercise price of $25.89 and a weighted average contractual life of 2.74 years (2014 – 2.95 years).

8. Fair Value of Financial Instruments

The Corporation's financial instruments as at March 31, 2015 and December 31, 2014 include cash and cash equivalents, trade and other receivables, promissory notes receivable, Preferred LP and LLC units, foreign exchange forward contracts, accounts payable and accrued liabilities, and loans and borrowings. The fair value of cash and cash equivalents, trade and other receivables, promissory notes 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 and LLC Units, foreign exchange contracts) 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 condensed consolidated statement of financial position as at March 31, 2015 and December 31, 2014, 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 period ended March 31, 2015 there were no transfers between level 1 or level 2 classified assets and liabilities.

March 31, 2015	**Level 1**	**Level 2**	**Total**
Foreign exchange contracts	$ -	$ (2,865,884)	$ (2,865,884)
Preferred LP and LLC units	-	500,487,999	500,487,999
	$ -	$ 497,622,115	$ 497,622,115
December 31, 2014	**Level 1**	**Level 2**	**Total**
Foreign exchange contracts	$ -	$ (1,541,630)	$ (1,541,630)
Preferred LP and LLC units	-	527,641,735	527,641,735
	$ -	$ 526,100,105	$ 526,100,105

9. Commitments and Contingencies:

In 2009, the Corporation signed a seven-year lease that commenced December 1, 2009, ending November 30, 2016. In December 2014, the Corporation signed a five-year lease at a new location as the Corporation has outgrown the current space. The Corporation's annual commitments under both leases are as follows:

2015	$ 337,169
2016	571,732
2017	410,494
2018	421,033
2019	431,572
2020	215,786
	$ 2,387,786

Income taxes

In 2014, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009. Subsequent to March 31, 2015, Alaris received notices of re-assessment (the "Reassessments") from the CRA in respect of its taxation years ended December 30, 2009 through to December 30, 2013. Pursuant to the Reassessments, the CRA has denied the deduction of certain non-capital losses and scientific research and experimental development expenses claimed by Alaris during those taxation years, resulting in reassessed taxes and interest of $26.9 million. The Corporation has received legal advice that it should be entitled to deduct the non-capital losses and as such, the Corporation remains of the opinion that all of its tax returns were filed correctly and will withstand such reassessment. The Corporation intends to vigorously defend its tax filing position. In order to do that, the Corporation is required to pay 50% of the re-assessed amounts as a deposit to the Canada Revenue Agency ($1.3 million paid in 2014, $12.1 million to be paid subsequent to March 31, 2015). The Corporation anticipates that legal proceedings through the CRA and the courts will take considerable time to resolve.