Unaudited Condensed Consolidated Interim
Financial Statements of

ALARIS ROYALTY CORP.

For the three months ended March 31, 2018

Alaris Royalty Corp.

Condensed consolidated statement of financial position (unaudited)

$ thousands	Note	31-Mar 2018	31-Dec 2017
Assets			
Cash and cash equivalents		$ 17,540	$ 35,475
Prepayments		2,105	2,407
Foreign exchange contracts		211	1,430
Trade and other receivables	4	5,631	8,642
Promissory notes receivable	4	13,735	15,403
Current Assets		$ 39,222	$ 63,357
Promissory notes and other receivables	4	16,431	32,017
Deposits		19,252	19,252
Equipment		461	503
Intangible assets	4	6,093	6,116
Investments at fair value	4	680,289	669,216
Investment tax credit receivable		4,956	2,957
Deferred income taxes	8	2,797	5,449
Non-current assets		730,279	735,509
Total Assets		$ 769,501	$ 798,867
Liabilities			
Accounts payable and accrued liabilities		$ 2,255	$ 1,707
Dividends payable		4,921	4,921
Income tax payable	8	5,390	588
Current Liabilities		12,567	7,217
Deferred income taxes	8	11,428	13,641
Loans and borrowings	6	150,847	173,464
Non-current liabilities		162,275	187,105
Total Liabilities		$ 174,842	$ 194,322
Equity			
Share capital	5	$ 620,842	$ 620,842
Equity reserve	7	12,826	12,058
Fair value reserve	3	-	(17,036)
Translation reserve		13,034	5,767
Retained earnings / (deficit)		(52,044)	(17,087)
Total Equity		$ 594,659	$ 604,545
Total Liabilities and Equity		$ 769,501	$ 798,867
Commitments	10		

Alaris Royalty Corp.

Condensed consolidated statement of comprehensive income / loss (unaudited)

		Three Months ended March 31	
$ thousands except per share amounts	Note	2018	2017
Revenues			
Royalties and distributions	4	$ 23,252	$ 20,391
Interest and other	4	388	490
Total Revenue		23,641	20,881
Other income / (loss)			
Gain on partner redemptions	4	1,742	-
Increase in investments at fair value	4	3,531	-
Realized gain / (loss) on foreign exchange contracts		139	(349)
Total other income / (loss)		5,412	(349)
Salaries and benefits		682	636
Corporate and office		953	721
Legal and accounting fees		1,113	538
Non-cash stock-based compensation	7	768	841
Bad debt expense & reserve	4	25,974	-
Depreciation and amortization		65	67
Total Operating Expenses		29,554	2,804
Earnings / (Loss) before the undernoted		(501)	17,727
Finance costs	6	2,745	2,014
Unrealized (gain) / loss on foreign exchange contracts		1,219	(894)
Unrealized foreign exchange (gain) / loss		(4,478)	2,128
Earnings before taxes		13	14,480
Current income tax expense		5,095	1,829
Deferred income tax expense / (recovery)		(1,936)	801
Total income tax expense		3,159	2,631
Earnings / (Loss)		$ (3,146)	$ 11,849
Other comprehensive income			
Foreign currency translation differences		7,267	(2,435)
Other comprehensive income / (loss)		7,267	(2,435)
Total comprehensive income		$ 4,121	$ 9,414
Earnings / (Loss) per share			
Basic		($0.09)	$0.33
Fully diluted		($0.09)	$0.32
Weighted average shares outstanding			
Basic	5	36,481	36,451
Fully Diluted	5	36,773	36,784

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the three months ended March 31, 2017

$ thousands	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2017		$ 617,893	$ 11,628	$ (27,931)	$ 23,029	$ 30,079	$ 654,698
Earnings for the period		$ -	$ -	$ -	$ -	$ 11,849	$ 11,849
Other comprehensive income / (loss)							
Foreign currency translation differences		-	-	-	(2,435)	-	(2,435)
Total other comprehensive income / (loss)		-	-	-	(2,435)	-	(2,435)
Total comprehensive income / (loss) for the period		$ -	$ -	$ -	$ (2,435)	$ 11,849	$ 9,414
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	7	$ -	$ 841	$ -	$ -	$ -	$ 841
Dividends to shareholders	5	-	-	-	-	(14,760)	(14,760)
Options exercised in the period		2,240	(2,240)	-	-	-	-
Total transactions with Shareholders of the Company		2,240	(1,399)	-	-	(14,760)	(13,919)
Balance at March 31, 2017		$ 620,133	$ 10,229	$ (27,931)	$ 20,594	$ 27,168	$ 650,193

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the three months ended March 31, 2018

$ thousands	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings / (Deficit)	Total Equity
Balance at January 1, 2018		$ 620,842	$ 12,058	$ (17,036)	$ 5,767	$ (17,087)	$ 604,545
Earnings / (Loss) for the period		$ -	$ -	$ -	$ -	$ (3,146)	$ (3,146)
Other comprehensive loss							
Foreign currency translation differences		-	-	-	7,267	-	7,267
Total other comprehensive income / (loss)		-	-	-	7,267	-	7,267
Total comprehensive income / (loss) for the period		$ -	$ -	$ -	$ 7,267	$ (3,146)	$ 4,121
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	7	$ -	$ 768	$ -	$ -	$ -	$ 768
Dividends to shareholders	5	-	-	-	-	(14,775)	(14,775)
Fair value reserve transferred to opening retained earnings	3	-	-	17,036	-	(17,036)	-
Total transactions with Shareholders of the Company		-	768	17,036	-	(31,811)	(14,007)
Balance at March 31, 2018		$ 620,842	$ 12,826	$ -	$ 13,034	$ (52,044)	$ 594,659

Alaris Royalty Corp.

Condensed consolidated statement of cash flows (unaudited)

$ thousands	Notes	Three Months ended March 31 2018	2017
Cash flows from operating activities			
Earnings / (Loss) from the period		$ (3,146)	$ 11,849
Adjustments for:			
Finance costs	6	2,745	2,014
Deferred income tax expense / (recovery)		(1,936)	801
Depreciation and amortization		65	67
Bad debt expense & reserve	4	25,974	-
Gain on partner redemptions	4	(1,742)	-
Increase in investments at fair value	4	(3,531)	-
Unrealized (gain) / loss on foreign exchange contracts		1,219	(894)
Unrealized foreign exchange (gain) / loss		(4,478)	2,128
Non-cash stock-based compensation	7	768	841
		$ 15,938	$ 16,806
Change in:			
- trade and other receivables	4	2,467	10
- income tax receivable / payable		4,802	334
- prepayments		302	620
- accounts payable and accrued liabilities		548	(750)
Cash generated from operating activities		24,057	17,019
Finance costs		(2,745)	(2,014)
Net cash from operating activities		$ 21,312	$ 15,005
Cash flows from investing activities			
Acquisition of preferred units	4	$ (18,841)	$ (5,375)
Proceeds from partner redemptions	4	26,360	500
Promissory notes issued	4	(8,352)	(5,000)
Promissory notes repaid	4	2,320	-
Acquisition of equipment		-	(24)
Net cash from / (used in) investing activities		$ 1,487	$ (9,898)
Cash flows from financing activities			
Repayment of debt	6	$ (34,039)	$ -
Proceeds from debt	6	7,739	-
Dividends paid	5	(14,775)	(14,745)
Deposits with CRA	8	-	(68)
Net cash used in financing activities		$ (41,075)	$ (14,814)
Net decrease in cash and cash equivalents		$ (18,277)	$ (9,707)
Impact of foreign exchange on cash balances		341	(248)
Cash and cash equivalents, Beginning of period		35,475	29,491
Cash and cash equivalents, End of period		$ 17,540	$ 19,536
Cash taxes paid		$ 284	$ 1,557

1. Reporting entity:

Alaris Royalty Corp. is a company domiciled in Calgary, Alberta, Canada. The condensed consolidated interim financial statements as at and for the three months ended March 31, 2018 comprise Alaris Royalty Corp. and its subsidiaries (together referred to as the "Corporation"). The Corporation's American operations are conducted through two Delaware Corporations, Alaris USA Inc.("Alaris USA") and Salaris USA Royalty Inc. ("Salaris USA"). 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, loans receivable, 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

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These condensed consolidated interim financial statements were approved by the Board of Directors on May 7, 2018.

(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:

- Investments at fair value are measured at fair value with changes in fair value recorded in earnings (see note 3).
- 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 Inc. and Salaris USA have 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 in each of our investments. 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 appropriate. In a number of our investments we have protective rights, which provides the

Corporation the right to demand repayment of our investment if it is in default of the terms of our operating agreement. Failure to satisfy the demand for repayment can lead to the Corporation's rights to allow it to control the investment.

Key estimates 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. Where partners are in default, other valuation methods may be used.

Collectability of amounts receivable

Management makes estimates on the timing and availability of cash flows from its partners to pay for amounts that are past due. These estimates are generally based on a combination of the relevant partners' most recently available financial information and past performance. Refer to note 4 for details on the Corporation's assessment of collectability of amounts receivable that are past due.

Income taxes

Provisions for income 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:

Except as described below, the accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Corporation's consolidated financial statements as at and for the year ended December 31, 2017.

The Corporation has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from January 1, 2018. The Corporation has adopted the standard retrospectively with the transition adjustment recorded in opening retained earnings. Comparative periods have not been restated.

IFRS 9: Financial Instruments

IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The IAS 39 measurement categories for financial assets will be replaced by fair value through profit or loss ("FVTPL"), fair value through other comprehensive income and amortized cost.

IFRS 9 retains most of the IAS 39 requirements for financial liabilities and the Corporation does not anticipate any changes in classification or measurement of financial liabilities on transition to IFRS 9.

A new expected credit loss model for calculating impairment on financial assets classified at amortized cost replaces the incurred loss impairment model used in IAS 39. The new model is expected to result in more timely recognition of expected credit losses.

When financial assets are impaired by credit losses and the entity records the impairment in a separate account (eg an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets.

IFRS 9 is effective for years beginning on or after January 1, 2018. As a result of the adoption of IFRS 9, the following classification and measurement changes have been reflected:

	IAS 39		IFRS 9	
Financial Instrument	Category	Measurement	Category	Measurement
Cash and cash Equivalents	FVTPL	Fair value	Amortized cost	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Foreign exchange contracts	FVTPL	Fair value	FVTPL	FVTPL
Promissory notes receivable	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Investments at fair value	Available for sale financial assets	Fair value	FVTPL	FVTPL
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	Amortized cost	Amortized cost
Loans and borrowings	Other liabilities	Amortized cost	Amortized cost	Amortized cost

The classification and measurement of investments at fair value as FVTPL is due to the business model of held to collect, and contractual cash flows being other than solely payments of principal and interest. Although the investments at fair value will continue to be measured at fair value, fair value gains or losses will be recorded through profit or loss as opposed to through other comprehensive income. Therefore, on transition to IFRS 9, an adjustment of $17.0 million was made to move cumulative fair value gains or losses from the fair value reserve to retained earnings.

For those financial assets classified and measured at amortized cost, the expected credit loss model is applied to determine impairment of financial assets. This applies to trade and other receivables, as well as promissory notes receivable.

There was no material change from the Corporation's existing methodology in determining credit losses to the expected credit loss model that will be applied to assets classified at amortized cost. Therefore, there was no transition adjustment required.

IFRS 15: Revenue from Contracts with Customers

Revenue from Contracts with Customers provides guidance on revenue recognition and relevant disclosures, and is effective for annual reporting periods beginning on or after January 1, 2018. Due to the fact that the majority of its revenues are generated from financial instruments and therefore not in the scope of IFRS 15, there has been no change to the Corporations revenue recognition and no transition adjustment was required.

As a result of the adoption of new standard as outlined above the following account policies apply:

Revenue Recognition

The Corporation recognizes revenue on its financial instruments in accordance with IFRS 9. Revenue is recognized when and only when, the Corporation becomes party to the contractual provisions of the instruments, and when collection is reasonably assured.

Financial Instruments

Recognition and Initial Measurement

Financial instruments are recognized when the Corporation becomes party to the contractual provisions of the instrument. Financial assets and liabilities are not offset unless the Corporation has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Corporation has transferred substantially all the risks and rewards of ownership. A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are modified, but the changes to the terms is considered non-substantial, the modification is accounted for as a modification to the existing financial liability. The difference in the carrying amounts of liabilities as a result of both substantial and non-substantial modifications is recognized in profit and loss.

A financial asset or financial liability is initially measured at fair value, plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification and Subsequent Measurement

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through OCI (“FVOCI”) or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Corporation changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

The Corporation characterizes its fair value measurements into a three-level hierarchy depending on the degree to which the inputs are observable, as follows:

- Level 1 inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Business Model Assessment

The Corporation makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Solely Payments of Principal and Interest Assessment

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Corporation considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Financial Liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

Derivatives

Derivative financial instruments are classified as FVTPL unless designated for hedge accounting. Derivative instruments that do not qualify as hedges, or are not designated as hedges, are recorded using mark-to-market accounting whereby instruments are recorded as either an asset or liability with changes in fair value recognized in profit and loss.

Impairment

The Corporation recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of the financial assets, the Corporation measures loss allowances at an amount equal to lifetime ECL. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Corporation is exposed to credit risk. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Corporation expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

4. Investments at Fair Value

Differences in the acquisition cost of Agility, Kimco, Planet Fitness, DNT, FED, Sandbox, Providence, Unify, ccComm., Accscient and SBI at March 31, 2018 and December 31, 2017 are partially attributable to foreign currency translation.

31-Mar-18 *$ thousands*	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
Lower Mainland Steel Limited Partnership ("LMS")	$ 60,034	$ 656	$ 60,690	$ 36,073
Labstat International, LP ("Labstat")	47,200	519	47,719	61,324
SCR Mining and Tunneling, LP ("SCR")	40,000	487	40,487	26,203
Kimco Holdings, LLC ("Kimco")	44,084	1,487	45,571	30,028
PF Growth Partners, LLC ("Planet Fitness")	51,564	809	52,373	62,495
DNT, LLC ("DNT")	87,470	726	88,196	92,355
Federal Resources Supply Company ("FED")	85,788	1,778	87,566	93,232
Sandbox Acquisitions, LLC ("Sandbox")	45,059	967	46,026	47,695
Providence Industries, LLC ("Providence")	38,673	501	39,174	41,755
Unify, LLC ("Unify")	22,978	634	23,612	25,158
ccCommunications LLC ("ccComm")	7,996	468	8,464	8,155
Accscient, LLC ("Accscient")	26,584	563	27,147	26,202
Sales Benchmark Index LLC ("SBI")	109,705	454	110,159	110,042
Heritage Restoration, LLC ("Heritage")	18,510	231	18,741	19,568
Capitalized costs	-	4	4	4
Total Investments at Fair Value	$ 685,646	$ 10,283	$ 695,928	$ 680,289

31-Dec-17	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
Lower Mainland Steel Limited Partnership ("LMS")	$ 60,034	$ 656	$ 60,690	$ 35,917
Labstat International, LP ("Labstat")	47,200	519	47,719	61,324
Agility Health, LLC ("Agility")	25,232	781	26,013	26,133
SCR Mining and Tunneling, LP ("SCR")	40,000	487	40,487	26,203
Kimco Holdings, LLC ("Kimco")	42,928	1,252	44,180	29,045
PF Growth Partners, LLC ("Planet Fitness")	50,212	787	50,999	57,427
DNT, LLC ("DNT")	85,177	707	85,883	89,933
Federal Resources Supply Company ("FED"):	33,327	1,731	35,058	40,576
Sandbox Acquisitions, LLC ("Sandbox")	43,878	941	44,819	46,517
Providence Industries, LLC ("Providence")	37,659	488	38,147	40,661
Unify, LLC ("Unify")	22,376	617	22,993	24,499
ccCommunications LLC ("ccComm")	7,786	456	8,242	7,941
Accscient, LLC ("Accscient")	25,887	548	26,435	25,514
Sales Benchmark Index LLC ("SBI")	106,829	442	107,271	107,158
Capitalized costs	-	155	155	155
Total LP and LLC Units	628,523	10,569	639,092	619,004
FED Loan Receivable	50,212	-	50,212	50,212
Total Investments at Fair Value	$ 678,735	$ 10,569	$ 689,304	$ 669,216

Transactions closed in 2018

Investment in Heritage Restoration, LLC ("Heritage")

On January 23, 2018, the Corporation entered into subscription and operating agreements with Heritage Restoration, Holdings, LLC ("Heritage"), pursuant to which the Corporation invested US$15.0 million ("Heritage Contribution") in exchange for preferred units in Heritage (the "Heritage Units"). The Corporation is entitled to an annual distribution of US$2.25 million ("Heritage Distribution") for the first full year following the transaction, which equates to an initial yield of 15%. US$3.0 million of the Heritage Units are redeemable at par at any time. The performance metric dictating the annual percentage change in the Heritage Distribution is gross margin, subject to a 6% collar and will reset for the first time on January 1, 2019. The Heritage Contribution was used to fund the management buyout of the existing shareholder.

Redemption of Agility Health, LLC Units

On February 28, 2018, the Corporation successfully redeemed all of its units in Agility as a result of the sale of Agility to a third party. Gross proceeds to Alaris from the Agility Sale consist of: (i) US$22.2 million for the preferred units Alaris holds in Agility LLC, which includes a premium of US$2.1 million over Alaris' original cost of US$20.1 million; (ii) US$2.9 million for all unpaid distributions up to February 28, 2018; and (iii) US$1.6 million for a loan outstanding, including all principal and interest accrued on such loan. US$1.5 million of the repurchase price to be paid to Alaris will be placed in escrow for 18 months to satisfy indemnification obligations under the transaction. Following the escrow period any remaining escrowed funds will be paid to Alaris.

The Corporation recorded a gain on redemption of $1.7 million during the three month period ending March 31, 2018 which represents the excess of total consideration received (US$22.2 million) above the carrying value of US$20.8 million. The cumulative fair value adjustments previously recorded through other comprehensive income were moved to retained earnings on January 1, 2018 to reflect the changes in accounting standards (as described in note 3). As a result of the gain on redemption the Corporation paid $2.3 million in taxes subsequent to March 31, 2018.

Kimco Holdings, LLC Additional Contribution

On March 30, 2018, the Corporation loaned US$6.0 million to Kimco to replace existing subordinated debt. The Corporation is entitled to an annual yield of 12% (US$0.7 million). The transaction was a part of a larger debt refinancing with a new senior lender to replace existing senior debt, asset based revolver and subordinated debt. Kimco had previously been paying 12% interest on its subordinated debt and was current with all obligations to its lenders. As a result of the refinancing, Kimco will commence fixed annual distributions to Alaris of US$1.2 million (paid monthly) and a quarterly cash flow sweep up to the maximum contracted distributions subject to certain bank covenants being met.

Royalties and Distributions:

The Corporation recorded royalty and distribution revenue and interest and other income as follows:

Royalties and distributions:	Three Months ended March 31	
$ thousands	2018	2017
DNT	$ 3,626	$ 3,683
SBI	3,492	-
FED	3,394	2,796
Planet Fitness	2,170	2,144
Labstat	2,104	1,500
Sandbox	1,813	1,091
Providence	1,495	1,489
LMS	1,180	1,206
Accscient	948	-
Unify	871	893
Agility Health	637	1,012
Heritage	526	-
End of the Roll	390	355
ccComm	307	171
SCR	300	-
Sequel	-	4,051
Total Distributions	$ 23,252	$ 20,391
Other Income		
Interest	388	490
Total Revenue	$ 23,641	$ 20,881

Trade receivables are due mostly from three partner companies with two of them having an outstanding balance over 90 days. The Corporation continuously assesses the likelihood of collecting outstanding accounts receivable from each partner given their specific situation.

Trade & Other Receivables	31-Mar-18	31-Dec-17
$ thousands		
Labstat (3)	$ 4,239	$ 4,239
Agility (2)	-	3,053
Group SM (1)	-	544
Other Receivables	1,392	806
Balance at March 31, 2018	$ 5,631	$ 8,642

(1) The Corporation recorded a $0.5 million bad debt expense related to interest accrued on the Group SM unsecured promissory notes during the three month period ending March 31, 2018. The Corporation collected $1.5 million of interest in 2017 however the collection of the remaining amount is no longer assured.

(2) The Agility balance as of December 31, 2017 related to unpaid distributions and was collected as part of the Agility redemption.

(3) Labstat includes the cash flow sweep for 2017 distributions. The Corporation collected the full $4.2 million subsequent to March 31, 2018.

Promissory Notes and Other Receivables:

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, 2018, the following is a summary of the outstanding promissory notes.

Promissory Notes and Other Receivables *($ thousands)*	Carrying Value		Face Value	
Current	*31-Mar-18*	*31-Dec-17*	*31-Mar-18*	*31-Dec-17*
Group SM - Secured Promissory Note (3)	$ 10,000	$ 10,000	$ 10,000	$ 10,000
Labstat (2)	3,735	3,735	3,735	3,735
Agility	-	1,255	-	1,255
SHS	-	413	-	875
Total Current	$ 13,735	$ 15,403	$ 13,735	$ 15,865
Non-Current				
Kimco (5)	$ 12,156	$ 4,305	$ 12,933	$ 5,021
Kimco - LT accounts receivable (4)	2,341	2,281	5,586	5,586
Agility - LT accounts receivable (6)	1,934	-	1,934	-
Group SM - Unsecured Promissory Note (3)	-	11,600	17,000	17,000
Phoenix Secured Loan - US (1)	-	10,047	11,837	12,400
Phoenix Secured Loan - CDN (1)	-	3,784	8,500	8,033
Total Non-current	$ 16,431	$ 25,431	$ 37,337	$ 37,433
Balance	$ 30,166	$ 40,834	$ 51,072	$ 53,298

The Corporation will continue to pursue recovery of the full face value for all outstanding promissory notes. Should there be an adverse event to any of the above businesses, the timing and amounts collected could be negatively impacted.The differences between carrying value and face value is due to the timing and uncertainty surrounding the collection of cash flows. See below footnotes for additional details on each promissory note.

(1) Phoenix's US assets (formerly KMH) are in negotiation to be sold to a third party. During the three months ended March 31, 2018, a deterioration in certain aspects of the operations of Phoenix US resulted in a significant decrease in the Corporation's expected proceeds from the sales process. Due to the increased uncertainty over timing and magnitude of proceeds that will be generated from the sales process, the Corporation recorded a reserve of the carrying amount of the Phoenix US loan of $10.0 million in the three months ended March 31, 2018. The Phoenix CDN loan of $8.0 million had a carrying value of $3.8 million at December 31, 2017. Security for these assets are comprised of one clinic (undergoing a sales process) and personal assets of Phoenix owners. As a result of a significant deterioration in the value of both assets during the quarter, the Corporation recorded a $3.8 million reserve for the remaining carrying value of the loan in the three months ended March 31, 2018.

(2) Labstat note (interest at 7%) is due July 2018, and is expected to be received in full.

(3) In 2017, the Corporation provided $10.0 million to Group SM, which is secured against outstanding accounts receivable and has a first lien on the business. The secured note bears interest at 10% per annum and is paid monthly. The collection of the secured note is expected at the completion of the ongoing restructuring process.

In addition, the Corporation has a $17.0 million unsecured demand note (interest at 8%) with Group SM, subordinate to a third party loan. For the year ended December 31, 2017, a reserve of $5.6 million had been recorded to reflect the Corporation's estimate of expected proceeds from this loan. During the quarter ended March 31, 2018, the restructuring process remains underway however Group SM's increasing working capital deficit and ongoing liquidity issues has reduced the Corporation's expected proceeds to be received from this process. As a result the timing and increasing uncertainty surrounding the collection of future cash flow, the Corporation provided a reserve against the remaining carrying value of the promissory notes of $11.6 million during the three month period ending March 31, 2018.

(4) In 2016, accrued distributions totaling US$4.5 million were reclassified to long-term, upon reclassification, the amounts were discounted and a reserve of US$2.6 million recorded to reflect the uncertainty of timing and the long-term collection horizon. The carrying value at March 31, 2018 reflects that the notional amount will be received over a five year period.

(5) The Corporation contributed US$4.0 million of promissory notes in 2017, interest of 8% per annum is paid monthly. The Corporation contributed an additional US$6.0 million to refinance existing subordinated debt. The US$6.0 million has a five year term bearing interest at 12% per annum, paid monthly.

(6) Agility receivable as of March 31, 2018 relates to the US$1.5 million that was placed in escrow upon closing of the Agility refinancing.

Bad Debt Expense and Reserve:

Due to the negative outcome surrounding the KMH strategic processes and ongoing liquidity issues at Group SM the timing and uncertainty surrounding the timing and collection of any amount of their respective promissory notes the Corporation recorded a $25.4 million reserve in the three month period ending March 31, 2018 (please see above in note 4 for additional details). The Corporation also wrote off $0.5 million of accrued interest related to the Group SM unsecured promissory notes.

Bad Debt Expense and Reserve *($ thousands)*	Three Months Ended	
Write Offs	*31-Mar-18*	*31-Mar-17*
Group SM - accounts receivable	$ 544	$ -
Total Write offs	$ 544	$ -
Reserve		
Group SM - Unsecured Promissory Note	$ 11,600	$ -
Phoenix Secured Loan - US	10,046	-
Phoenix Secured Loan - CDN	3,784	-
Total Reserve	$ 25,430	$ -
Total Bad Debt Expense	$ 25,974	$ -

Intangible Assets:

The Corporation holds intangible assets in End of the Roll of $6.1 million (December 31, 2017 - $6.1 million), net of accumulated amortization of $1.2 million (December 31, 2017 - $1.2 million).

5. Share capital:

Issued Common Shares	Number of Shares	Amount ($)
	thousands	*$ thousands*
Balance at December 31, 2016	36,336	$ 617,893
Issued after employee / director vesting	109	2,512
Cashless options exercised in the period	36	-
Fair value of options exercised in the period	-	438
Balance at December 31, 2017	36,481	$ 620,842
Balance at March 31, 2018	36,481	$ 620,842

The Corporation has authorized, issued and outstanding, 36,481,247 voting common shares as at March 31, 2018 (December 31, 2017 – 36,481,247).

Weighted Average Shares Outstanding	Three Months ended March 31	
thousands	2018	2017
Weighted average shares outstanding, basic	36,481	36,451
Effect of outstanding options	-	32
Effect of outstanding RSUs	292	302
Weighted average shares outstanding, fully diluted	36,773	36,784

2,242,364 options were excluded from the calculation as they were anti-dilutive at March 31, 2018.

Dividends

In each of the first three months of 2018 and 2017, the Corporation declared a dividend of $0.135 per common share, $0.405 per share and $14.8 million in aggregate (2017 - $0.405 per share and $14.7 million in aggregate).

6. Loans and borrowings:

As at March 31, 2018 the Corporation had a $300 million credit facility with a syndicate of Canadian chartered banks, the facility has a four year term with a maturity date in September 2021. The interest rate is based on a combination of the CAD Prime Rate ("Prime"), Bankers' Acceptances ("BA"), US Base Rate ("USBR") and LIBOR. The Corporation realized a blended interest rate of 5.5% for the three months ended March 31, 2018. During the period, another bank joined the lending syndicate and the facility was increased from $280 million to $300 million and at the same time the accordion feature was reduced from $70 million to $50 million. At March 31, 2018, the facility was $150.8 million drawn (December 31, 2017 - $173.4 million).

At March 31, 2018, the Corporation met all of its covenants as required by the facility. Those covenants include a maximum funded debt to contracted EBITDA of 2.5:1 (actual ratio is 1.68:1 at March 31, 2018); minimum tangible net worth of $450.0 million (actual amount is $588.6 million at March 31, 2018); and a minimum fixed charge coverage ratio of 1:1 (actual ratio is 1.15:1 at March 31, 2018). The Corporation had US$92.2 million of USD denominated debt as of March 31, 2018 (December 31, 2017 US$112.7 million).

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 Restricted Share Units ("RSUs") and Stock Options ("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 455,551 and issued 291,651 RSUs to management and Directors as of March 31, 2018. The RSUs issued to directors (93,605) vest over a three year period. The RSUs issued to management (198,046) do not vest until the end of a three year period (119,000 in July 2018, 47,080 in July 2019, and 31,966 in October 2020) 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.

The Corporation has reserved 2,574,073 and issued 2,242,364 options as of March 31, 2018. The options outstanding at March 31, 2018, have an exercise price in the range of $20.60 to $33.87, a weighted average exercise price of $25.56 (2017 – $26.47) and a weighted average contractual life of 2.7 years (2017 – 2.7 years).

For the three months ended March 31, 2018 the Corporation incurred stock-based compensation expenses of $0.8 million (2017 - $0.8 million) which includes: $0.5 million (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2017 - $0.5 million); and $0.3 million (non-cash expense) for the amortization of the fair value of outstanding stock options (2017 - $0.3 million).

8. Income taxes:

In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009. The Corporation has since received notices of reassessment from the Canada Revenue Agency in respect of its taxation year ended December 30, 2009 through December 30, 2016 (collectively the "Reassessments"). Pursuant to the Reassessments, the deduction of approximately $121 million of non-capital losses and utilization of $5.2 million in investment tax credits by the Corporation was denied, resulting in reassessed taxes and interest of approximately $44.6 million. Subsequent to filing the notice of objection for the July 14, 2009 taxation year, Alaris received an additional proposal from the CRA pursuant to which the CRA is proposing to apply the general anti avoidance rule to deny the use of non-capital losses, accumulated scientific research and experimental development expenditures and investment tax credits. The proposal does not impact the Corporation's previously disclosed assessment of the total potential tax liability (including interest) or the deposits required to be paid in order to dispute the CRA's reassessments. 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 tax filings to date were filed correctly and that it will be successful in appealing such Reassessments. The Corporation intends to continue to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amounts as a deposit to the Canada Revenue Agency. The Corporation has paid a total of $19.3 million in deposits to the CRA relating to the Reassessments to date,. It is possible that the Corporation may be reassessed with respect to the deduction of its non-capital losses in respect of its tax filings in respect of the 2017 and 2018 taxation years, on the same basis. The carrying values of the remaining ITC's of $5.0 million at March 31, 2018 and the ITC's claimed in 2017 of $3.8 million are at risk should the Corporation be unsuccessful in defending its position. The Corporation anticipates that legal proceedings through the CRA and the courts will take considerable time to resolve and the payment of the deposits, and any taxes, interest or penalties owing will not materially impact the Corporation's payout ratio.

The Corporation firmly believes it will be successful in defending its position and therefore, any current or future deposit paid to the CRA would be refunded, plus interest. The Corporation will continue to file its tax returns by claiming the remaining available investment tax credits in subsequent tax filings.

The comparative period deferred tax balances have been reclassified to conform with the current period presentation. The Corporation previously reported a net deferred tax liability of $8.2 million. This amount has been presented in these financial statements in the comparative period as a deferred tax asset of $5.4 million and a deferred tax liability of $13.6 million.

9. Fair Value of Financial Instruments:

The Corporation recognizes that the determination of fair value of its investments becomes more judgmental the longer the investment is held. The price the Corporation pays for its investments is fair value at that time. Typically, the risk profile and future cash flows expected from the individual investments change over time. The Corporation's valuation model incorporates these factors each reporting period.

The Corporation estimated the fair value of the Investments at fair value by evaluating a number of different methods:

a) A going concern value was determined by calculating the discounted cash flow of the future expected distributions. Key assumptions used include the discount rate used in the calculation and estimates relating to changes in future distributions. 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. Future distributions have been discounted at rates ranging from 13.25% - 19.50%. All of the investments except as noted below were valued on this basis at March 31, 2018 and December 31, 2017.

b) A liquidation value is used when there is concern around the collection of future distributions and the partner company is in default with the Corporation. The liquidation value is 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. If not, the value is reduced to what the calculation estimates may be recovered (the liquidation value). There was no investment valued at using this method at March 31, 2018. The Corporation's investment in Agility was valued on this basis at December 31, 2017.

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, 2018 and December 31, 2017, are measured at fair value on a recurring basis using level 2 or level 3 inputs. Discount rates and estimates used to determine changes in future distributions from each investment are the primary inputs in the fair value models and are generally unobservable. Accordingly, these fair value measures are classified as level 3. There were no transfers between level 2 or level 3 classified assets and liabilities during the three month period ended March 31, 2018.

Fair value classification *($ thousands)*	Level 1	Level 2	Level 3	Total
31-Mar-18				
Foreign exchange contracts	$ -	$ 211	$ -	$ 211
Investments at fair value	-	-	680,289	680,289
Total at March 31, 2018	$ -	$ 211	$ 680,289	$ 680,501
31-Dec-17	Level 1	Level 2	Level 3	Total
Foreign exchange contracts	$ -	1,430	$ -	1,430
Investments at fair value	-	-	669,216	669,216
Total at December 31, 2017	$ -	$ 1,430	$ 669,216	$ 670,646

The Corporation purchases forward exchange rate contracts to match expected after tax distributions in US dollars on a rolling 12 month basis and also for between 25% to 60% of the expected distributions on a rolling 12 to 24 month basis. The notional value of outstanding foreign exchange contracts is US$35.0 million as at March 31, 2018 (US$33.6 million as of December 31, 2017).

10. Commitments:

The Corporation's annual commitments under its current office lease are as follows:

Commitments	31-Mar-18
2018	432
2019	216
2020	-
Total Commitments	$ 966