Unaudited Condensed Consolidated Interim Financial Statements of

ALARIS ROYALTY CORP.

For the three and nine months ended September 30, 2015

Alaris Royalty Corp.

Condensed consolidated statement of financial position (unaudited)

	Note	September 30 2015	December 31 2014
Assets			
Cash and cash equivalents		$14,592,122	$13,483,524
Prepayments and deposits	9	12,120,403	1,467,872
Trade and other receivables		6,836,447	5,551,730
Income tax receivable		-	1,866,572
Promissory notes receivable	4	10,199,795	8,965,000
Investment tax credit receivable		3,468,680	-
Current Assets		47,217,447	31,334,698
Promissory notes receivable	4	3,500,000	3,500,000
Equipment		778,130	109,565
Intangible assets	4	6,320,126	6,388,328
Investments at Fair Value	4	665,461,151	527,641,735
Investment tax credit receivable		4,942,531	10,922,393
Non-current assets		681,001,938	548,562,021
Total Assets		$728,219,385	$579,896,719
Liabilities			
Accounts payable and accrued liabilities		$1,993,426	$1,453,661
Dividends payable		4,858,563	4,009,045
Income taxes payable		2,757,106	-
Loans and borrowings	6	10,425,000	-
Foreign exchange contracts		4,805,515	1,541,630
Current Liabilities		24,839,610	7,004,336
Deferred income taxes		10,427,391	7,712,668
Loans and borrowings	6	31,275,000	35,500,000
Non-current liabilities		41,702,391	43,212,668
Total Liabilities		$66,542,001	$50,217,004
Equity			
Share capital	5	$611,940,991	$498,363,066
Equity reserve		10,198,861	8,858,711
Fair value reserve		1,034,702	(2,637,352)
Translation reserve		22,024,981	7,071,417
Retained Earnings		16,477,849	18,023,873
Total Equity		$661,677,384	$529,679,715
Total Liabilities and Equity		$728,219,385	$579,896,719

Commitments and contingencies	9
Subsequent events	6,10

Alaris Royalty Corp.

Condensed consolidated statement of comprehensive income (unaudited)

	Note	Three months ended Sept 30		Nine months ended Sept 30	
		2015	2014	2015	2014
Revenues and other income					
Royalties and distributions	4	$22,824,948	$17,827,006	$59,178,710	$49,239,927
Interest and other		201,379	261,982	677,975	888,060
Gain on reduction of partner interests	4	-	-	2,792,457	-
Gain/(loss) on foreign exchange contracts		(3,944,219)	(543,497)	(5,653,091)	(591,635)
Total Revenue and other income		19,082,108	17,545,491	56,996,051	49,536,352
Expenses					
Salaries and benefits		510,339	478,181	2,316,018	3,169,423
Corporate and office		636,835	543,124	2,238,042	1,494,874
Legal and accounting fees		609,256	448,734	1,518,193	1,218,512
Non-cash stock-based compensation	7	191,610	1,118,282	2,646,387	2,951,424
Bad debts	8	3,570,277	-	3,570,277	-
Permanent impairment of units	8	20,460,000	-	20,460,000	-
Depreciation and amortization		63,693	27,844	140,515	82,159
Subtotal		26,042,010	2,616,165	32,889,432	8,916,392
Earnings from operations		(6,959,902)	14,929,326	24,106,619	40,619,960
Finance cost		871,359	247,792	2,352,287	2,289,004
Unrealized foreign exchange (gain)/loss		(16,684,292)	(4,677,567)	(25,946,115)	(4,544,550)
Earnings before taxes		8,853,031	19,359,101	47,700,447	42,875,506
Current income tax expense	9	2,542,484	(1,100,183)	5,984,185	450,338
Deferred income tax expense	9	(155,705)	5,830,369	4,405,056	6,969,774
Earnings		$6,466,252	$14,628,915	$37,311,206	$35,455,394
Other comprehensive income					
Net change in fair value of Preferred Units	4	-	170,619	2,176,700	96,679
Net change in fair value of Preferred Units reclassified to earnings		5,460,000	-	2,667,543	-
Tax impact of change in fair value		(682,500)	83,549	(1,576,373)	212,349
Tax impact of realized gain				404,184	-
Foreign currency translation differences		9,538,953	3,044,420	14,953,564	2,901,139
Other comprehensive income for the period, net of income tax		14,316,453	3,298,588	20,599,713	3,210,167
Total comprehensive income for the period		$20,782,705	$17,927,503	$55,936,824	$38,665,561
Earnings per share					
Basic earnings per share		$0.18	$0.46	$1.12	$1.19
Fully diluted earnings per share		$0.18	$0.45	$1.10	$1.16
Weighted average shares outstanding					
Basic		35,336,120	32,042,952	33,234,111	29,898,524
Fully Diluted		35,855,490	32,718,883	33,812,281	30,522,359

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the nine months ended September 30, 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		-	-	-	-	35,455,394	35,455,394
Other comprehensive income							
Net change in fair value of Preferred units		-	-	96,679	-	-	96,679
Tax impact of change in fair value		-	-	212,349	-	-	212,349
Foreign currency translation differences		-	-	-	2,901,139	-	2,901,139
Total other comprehensive income		-	-	309,028	2,901,139	-	3,210,167
Total comprehensive income for the period		$-	$-	$309,028	2,901,139	$35,455,394	$38,665,561
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	$-	$2,951,424	$-	$-	$-	$2,951,424
Dividends to shareholders	5	-	-	-	-	(33,252,104)	(33,252,104)
Options exercised in the period	5	397,879	(274,141)	-	-	-	123,738
Shares issued in the period	5	87,417,135	-	-	-	-	87,417,135
Share issue costs, net of tax	5	(3,317,540)	-	-	-	-	(3,317,540)
Payments in lieu of dividends on RSUs	7	-	-	-	-	(224,054)	(224,054)
Total transactions with Shareholders of the Company		84,497,474	2,677,283	-	-	(33,476,158)	53,698,599
Balance at September 30, 2014		$497,735,050	$8,365,362	$(4,574,923)	$4,103,022	$16,494,825	$522,123,336

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the nine months ended September 30, 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		-	-	-	-	37,311,206	37,311,206
Other comprehensive income							
Net change in fair value of Preferred units		-	-	2,176,700	-	-	2,176,700
Net change in fair value of Preferred units reclassified to earnings		-	-	2,667,543	-	-	2,667,543
Tax impact of change in fair value				(1,576,373)	-	-	(1,576,373)
Tax impact on realized gain		-	-	404,184	-	-	404,184
Foreign currency translation differences		-	-	-	14,953,564	-	14,953,564
Total other comprehensive income		-	-	3,672,054	14,953,564	-	18,625,618
Total comprehensive income for the period		$-	$-	$3,672,054	$14,953,564	$37,311,206	$55,936,823
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	$-	$2,646,387	$-	$-	$-	$2,646,387
Dividends to shareholders	5	-	-	-	-	(38,857,230)	(38,857,230)
Shares issued in the period		115,035,478					115,035,478
Share issue costs, net of tax		(3,968,826)					(3,968,826)
Options exercised in the period	5	1,791,048	(586,012)	-	-	-	1,205,035
Shares issued after RSU vesting	5	720,225	(720,225)	-	-	-	-
Total transactions with Shareholders of the Company		113,577,925	1,340,150	-	-	(38,857,230)	76,060,845
Balance at September 30, 2015		$611,940,991	$10,198,861	$1,034,702	$22,024,981	$16,477,849	$661,677,384

Alaris Royalty Corp.

Condensed consolidated statement of cash flows (unaudited)

For the nine months ended September 30

	Note	2015	2014
Cash flows from operating activities			
Earnings from the period		$37,311,206	$35,455,394
Adjustments for:			
Finance costs		2,352,287	2,289,004
Deferred income tax expense		4,405,056	6,969,774
Depreciation and amortization		140,515	82,159
Unrealized foreign exchange loss/(gain)		(25,946,115)	(4,544,550)
Bad debts		3,570,277	-
Permanent impairment of units		20,460,000	-
(Gain)/Loss on foreign exchange contracts		3,263,885	(45,728)
(Gain)/Loss on reduction of partner interests		(2,792,457)	-
Non-cash stock based compensation	7	2,646,387	2,951,424
		45,411,041	43,157,477
Change in:			
-trade and other receivables		(2,988,422)	(2,348,965)
-prepayments		(10,652,531)	(1,304,546)
-trade and other payables		3,296,871	(1,684,076)
Cash generated from operating activities		35,066,959	37,819,890
Interest paid		(2,352,287)	(2,289,004)
Net cash from operating activities		$32,714,672	$35,530,886
Cash flows from investing activities			
Acquisition of equipment		(740,878)	(50,239)
Acquisition/disposition of Preferred LP Units	4	(153,815,710)	(54,609,577)
Proceeds from reduction in Preferred LP Units		44,300,000	-
Net cash used in investing activities		$(110,256,588)	(54,659,816)
Cash flows from financing activities			
New share capital, net of share issue costs	5	109,637,852	82,813,306
Proceeds from exercise of options	5	1,205,035	123,739
Borrowing of senior debt	6	157,000,000	53,200,000
Repayment of senior debt	6	(150,800,000)	(84,200,000)
Promissory notes issued	4	(4,964,850)	(50,000)
Promissory notes repaid	4	3,265,000	2,000,000
Dividends paid	5	(38,007,711)	(32,686,302)
Payments in lieu of dividends on RSUs	7	-	(224,054)
Net cash from financing activities		$77,335,326	$20,976,689
Net increase in cash and cash equivalents		(206,590)	1,847,759
Impact of foreign exchange on cash balances		1,315,188	-
Cash and cash equivalents, Beginning of period		13,483,524	8,998,342
Cash and cash equivalents, End of period		$14,592,122	$10,846,101

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 and nine months ended September 30, 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 United States 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 November 9, 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:

- Investments at Fair Value (Preferred LP units, Preferred LLC units and loan receivable) 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.

Income taxes

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

3. Significant accounting policies:

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

September 30, 2015	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LifeMark Health	$ 19,502,159	$ 499,894	$ 20,002,053	$ 38,397,000
LMS	54,228,822	333,280	54,562,102	33,028,822
Solowave	42,500,000	511,253	43,011,253	45,974,000
KMH	54,800,000	589,147	55,389,147	35,001,153
Labstat	47,200,000	518,944	47,718,944	46,998,944
Agility Health	26,956,110	834,799	27,790,909	26,814,587
SCR	40,000,000	487,339	40,487,339	37,988,339
Sequel	98,570,850	765,723	99,336,573	105,329,944
SMi	40,500,000	717,310	41,217,310	42,617,310
Kimco	39,190,120	1,119,777	40,279,897	39,662,991
Planet Fitness	53,644,000	823,812	54,467,812	54,485,288
DNT	93,877,000	754,952	94,631,952	94,631,952
Federal Resources	9,387,700	1,405,242	10,792,942	10,792,942
Capitalized costs	-	93,877	93,877	93,877
Total LP and LLC Units	620,326,761	9,455,349	629,782,110	611,817,151
FR Loan Receivable	53,644,000	-	53,644,000	53,644,000
Total Investments	$ 673,970,761	$ 9,455,349	$ 683,426,110	$ 665,461,151
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 September 30, 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 pre-tax 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.

Investment in DNT Construction, LLC ("DNT")

The Corporation holds 2,500,000 Class B preferred LLC units, 30,000,000 Class C preferred LLC units, 37,500,000 Class D preferred units and 1 Class E preferred LLC unit (collectively the "DNT units") in DNT acquired on June 1, 2015 for $70.0 million USD.

Pursuant to the LLC agreement dated June 1, 2015, the DNT units entitle the Corporation to receive an annual preferred distribution of $10,500,000 USD in priority to distributions on DNT's other LLC units in an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in DNT's gross revenues for the previous fiscal year. Distributions on the DNT units are receivable monthly.

DNT has the option at any time after June 1, 2018 to repurchase $40.0 million USD of the units at a pre-negotiated premium to the original purchase price while $30.0 million USD of the units are redeemable at par up until June 1, 2018. Any unredeemed units after June 1, 2018 become subject to the pre-negotiated premium.

Investment in Federal Resources Supply Company ("FR")

On June 26, 2015, the Corporation loaned $40.0 million USD to FR and acquired 10,000 Class C preferred shares in FR for $7.0 million USD ("FR Preferred Shares").

Pursuant to the loan agreement dated June 26, 2015, in each fiscal year of the 15 year loan, the Corporation is entitled to receive interest payments of $7,050,000 USD in priority to distributions on Federal Resources' other common units. The Corporation is accounting for this loan as an available for sale financial asset. In addition, commencing in January, 2017, the FR Preferred Shares will entitle Alaris to receive an annual preferred dividend based on an increase to Federal Resources' gross revenues (subject to a 6% collar). Such annual dividend will be adjusted (up or down) each year based on any increases or decreases in Federal Resources "gross revenues" for its immediately preceding fiscal year, subject to a maximum increase or decrease of six percent (6%) per year. Interest payments and future dividends from FR are receivable monthly.

FR has the option at any time after June 26, 2018 to repurchase the units at a pre-negotiated premium to the original purchase price.

Additional Investment in Planet Fitness Growth Partners LLC ("PFGP")

On July 1, 2015, the Corporation made a $5 million USD contribution to current partner Planet Fitness for 500,000 Class C Preferred LLC units. Distributions for the first twelve months are set at $700,000 USD.

Intangible Assets:

The Corporation holds intangible assets in End of the Roll, net of accumulated amortization of $954,794 (December 31, 2014 - $886,592), of $6,320,126 (December 31, 2014 - $6,388,328).

4. Investments (continued):

The Corporation recognized royalties, distributions and interest as follows:

Royalties and distributions:

	Three months ended Sept 30		Nine months ended Sept 30	
	2015	2014	2015	2014
Sequel	$ 3,857,763	$ 2,963,470	$ 10,856,801	$ 8,392,373
DNT	3,431,630	-	4,512,783	-
Federal Resources	2,190,083	-	2,309,382	-
Planet Fitness	1,949,784	-	5,218,390	-
Group SM	1,692,000	1,406,575	5,103,097	3,806,575
Solowave	1,622,514	1,206,036	4,867,541	3,618,108
SCR	1,600,000	1,600,000	4,800,000	4,800,000
Kimco	1,526,912	1,271,951	4,435,654	1,613,868
Labstat	1,500,000	1,605,501	4,500,000	3,816,503
LifeMark	1,069,950	1,028,799	3,127,548	3,020,452
LMS	1,056,210	850,467	3,111,322	2,524,262
Agility	1,037,988	883,126	3,015,705	2,661,539
End of the Roll	290,114	269,854	892,772	866,183
KMH	-	1,990,777	1,890,000	5,946,831
Killick	-	1,724,397	537,715	5,080,942
Quetico	-	1,026,053	-	3,092,291
	$ 22,824,948	$ 17,827,006	$ 59,178,710	$ 49,239,927

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 September 30, 2015, the following is a summary of the outstanding promissory notes:

Partner	September 30, 2015	December 31, 2014
Current		
Labstat	$ 3,734,945	$ 6,915,000
Group SM	3,000,000	-
Kimco	1,964,850	-
SHS	1,500,000	2,050,000
Total Current	$ 10,199,795	$ 8,965,000
Non-Current		
KMH	3,500,000	3,500,000
Total Non-current	3,500,000	3,500,000
Total	$ 13,699,795	$ 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; the Labstat note (interest at 7%) is due July 2016, the Group SM and Kimco notes (interest at 8%) are demand notes and are expected to be repaid in the next twelve months 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
Issued by short form prospectus	3,771,655	115,035,478
Short form prospectus costs, net of tax	-	(3,968,826)
Issued after employee RSU vesting	13,955	364,225
Options exercised in the period	102,638	1,205,035
Fair value of options exercised in the period	-	586,013
Balance at September 30, 2015	35,989,356	$611,940,991

The Corporation has authorized, issued and outstanding, 35,989,356 voting common shares as at September 30, 2015.

	2015	2014
Weighted average shares outstanding, basic	33,234,111	28,808,539
Effect of outstanding options	331,190	404,321
Effect of outstanding RSUs	246,980	238,207
Weighted average shares outstanding, fully diluted	33,812,281	29,451,067

532,895 options were excluded from the calculation as they were anti-dilutive at September 30, 2015 (September 30, 2014 – 876,996).

Dividends

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

In each of the first five months of 2015, the Corporation declared a dividend of $0.125 per common share; for June the Corporation declared a dividend of $0.13 per common share; and for July through September the Corporation declared a dividend of $0.135 per common share ($38,857,230 in aggregate). For the nine months ended September 30, 2014, dividends of $1.10 per share and $33,252,104 in aggregate were declared.

6. **Debt:**

The Corporation has a $90.1 million secured revolving credit facility with a syndicate of Canadian chartered banks. The facility was temporarily extended to $150.1 million through August 31, 2015. 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. Following that repayment, $85.0 million was drawn to fund the DNT contribution in May 2015, $58.0 million was drawn to fund the Federal Resources contribution and $14 million was drawn to fund follow on contributions to various partners. Net proceeds from an equity offering were used to repay $109 million on July 16, 2015 and $6.3 million in voluntary repayments were made in the period leaving a balance of $41.7 million at September 30, 2015. Interest is payable at the lenders' prime rate plus 2.75% (5.60% at September 30, 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 September 30, 2015, the Corporation is in compliance with each of the covenants.

Subsequent to September 30, 2015, the Corporation closed on a $200 million credit facility with a syndicate of Canadian banks led by the Corporation's current lenders. This new expanded facility will allow the Corporation to carry up to 1.5x EBITDA over the four year term while keeping the remainder available for new transactions. The four year revolving facility has no amortization, the annual fees are lower and the interest rate is 0.50% lower than the current facility.

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 246,980 RSUs to management and Directors as of September 30, 2015. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (150,930) do not vest until the end of the three year period (96,630 in November 2015; 41,619 in July 2016; and 12,681 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 was amortized over the thirty-six month vesting period.

For the three and nine months ended September 30, 2015, the Corporation incurred stock-based compensation expenses of $191,610 and $2,646,387 (2014 - $1,118,282 and $2,951,424) which includes: $384,958 and $1,794,885 (non-cash expense) for the portion of the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2014 - $470,014 and $1,348,706); and ($193,348) and $851,502 (non-cash expense) for the portion of the amortization of the fair value of outstanding stock options (2014 - $648,296 and $1,602,718). The Corporation has reserved 2,223,305 and issued 1,613,137 options that vest over a four-year period and expire in five years.

The options outstanding at September 30, 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 2.25 years (2014 – 2.95 years).

8. Fair Value of Financial Instruments and Financial Risk Management

The Corporation's financial instruments as at September 30, 2015 and December 31, 2014 include cash and cash equivalents, trade and other receivables, promissory notes receivable, Preferred LP and LLC units, loan receivable, foreign exchange forward contracts, accounts payable and accrued liabilities, income taxes payable and loans and borrowings. The fair value of cash and cash equivalents, trade and other receivables, current 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, the Federal Resources Loan, and foreign exchange contracts) are estimated 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. 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. For KMH at September 30, third party term sheets were used to supplement the liquidation value method.

(d) A fair market value based on third party assessments of value of the Preferred Units.

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 September 30, 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 September 30, 2015 there were no transfers between level 1 or level 2 classified assets and liabilities.

September 30, 2015	**Level 1**	**Level 2**	**Total**
Foreign exchange contracts	$ -	$ (4,805,515)	$ (4,805,515)
Investments at Fair Value	-	665,461,151	665,461,151
	$ -	$ 660,655,636	$ 660,655,636
December 31, 2014	**Level 1**	**Level 2**	**Total**
Foreign exchange contracts	$ -	$ (1,541,630)	$ (1,541,630)
Investments at Fair Value	-	527,641,735	527,641,735
	$ -	$ 526,100,105	$ 526,100,105

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Corporation's investments. At September 30, 2015 the Corporation's maximum exposure to credit risk is equal to the carrying amount of investments, trade and other receivables, promissory notes and cash and cash equivalents.

At September 30, 2015, there is approximately $0.7 million (December 31, 2014 - $2.4 million) in trade and other receivables and $3.5 million (December 31, 2014 - $3.5 million) in promissory notes owing from one counterparty, KMH, all of which are over 90 days outstanding. In addition, the carrying value of the KMH investment at September 30, 2015 was reduced to approximately $35 million (December 31, 2014 - $52 million). As a result of KMH continuing to withhold all of Alaris' distributions throughout the second and third quarters, no revenue from KMH has been recognized since March 31, 2015. The on-going delay in paying the Alaris distribution resulted in KMH and Alaris evaluating strategic alternatives, which may result in the repurchase or restructuring of this investment. During the period, $3.57 million of other receivables from KMH, representing distributions accrued prior to March 31, 2015, were written off and the fair value of the units were reduced by $15 million. As the reduction in fair value is believed to be a permanent impairment of this investment, the amount has been recorded in net income along with the previous period reductions that had been recognized directly in our fair value reserve. No other allowance for doubtful accounts has been recorded at September 30, 2015 as the Corporation believes that all amounts recorded at September 30, 2015 will be realized.

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, net of sub lease revenue from the 2009 lease, under both leases are as follows:

2015	$ 122,897
2016	484,832
2017	410,494
2018	421,033
2019	431,572
2020	215,786
	$ 2,086,614

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 (the “Reassessments”). In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation years ended December 31, 2009 through December 31, 2014. Pursuant to the Reassessments, the deduction of approximately $80 million of non-capital losses by the Corporation was denied, resulting in reassessed taxes and interest of approximately $24.5 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 for taxation years from 2006 through to 2012. 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 reassessment. 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 its July 14, 2009 tax return, and each return filed after that date, were filed correctly and it will be successful in appealing such Reassessment. The Corporation intends to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amount as a deposit to the Canada Revenue Agency. In 2014, the Corporation paid a deposit of $1,267,377 to the Canada Revenue Agency representing 50% of the Federal taxes assessed for the July 14, 2009 taxation year and in June 2015, the Corporation paid a deposit of $6,785,046 to the Canada Revenue Agency representing 50% of the Federal taxes assessed for the December 31, 2009 through December 31, 2013 taxation years. . In September 2015, the Corporation paid a deposit of $3,928,922 to the Canada Revenue Agency representing 50% of the Federal taxes assessed for the December 31, 2014 taxation year. 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 subsequent to December 31, 2014, on the same basis.

Remaining investment tax credits of $8.4 million at September 30, 2015 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.

10. Subsequent events:

Subsequent to September 30, 2015, the Corporation approved a loan facility for SMi of up to $10 million CAD to assist with short-term working capital issues. To date, $4.5 million has been drawn on this facility.