Unaudited Condensed Consolidated Interim Financial Statements of

ALARIS ROYALTY CORP.

For the three and six months ended June 30, 2016

Alaris Royalty Corp.

Condensed consolidated statement of financial position (unaudited)

	Note	30-Jun 2016	31-Dec 2015
Assets			
Cash and cash equivalents		$11,021,192	$20,990,702
Prepayments		1,665,515	2,434,451
Income tax receivable		8,031,317	3,528,509
Trade and other receivables		15,858,726	10,577,985
Investment tax credit receivable	9	4,453,400	3,796,888
Promissory note receivable	4	17,787,500	11,750,000
Current Assets		58,817,650	53,078,535
Promissory note receivable	4	$7,234,945	7,234,945
Deposits	9	13,346,048	11,981,345
Equipment		726,781	791,942
Intangible assets	4	6,251,924	6,297,392
Investments at fair value	4	715,714,226	704,109,367
Investment tax credit receivable	9	3,234,892	4,716,919
Non-current assets		746,508,816	735,131,910
Total Assets		$805,326,466	$788,210,445
Liabilities			
Accounts payable and accrued liabilities		$2,274,785	$2,138,132
Dividends payable	5	4,905,368	4,900,869
Foreign exchange contracts	8	951,721	5,345,488
Income tax payable		-	1,841,634
Current Liabilities		8,131,874	14,226,123
Deferred income taxes		22,740,777	19,490,794
Loans and borrowings	6	124,782,775	77,447,075
Non-current liabilities		147,523,552	96,937,869
Total Liabilities		$155,655,426	$111,163,992
Equity			
Share capital	5	$617,892,818	$617,626,773
Equity reserve		10,131,352	7,525,767
Fair value reserve		(15,075,641)	1,874,903
Translation reserve		15,880,205	27,651,191
Retained earnings		20,842,308	22,367,819
Total Equity		$649,671,040	$677,046,453
Total Liabilities and Equity		$805,326,466	$788,210,445
Commitments & contingencies	9		

Alaris Royalty Corp.

Condensed consolidated statement of comprehensive income / (loss) (unaudited)

For the three and six months ended June 30

		Three months ended June 30th		Six months ended June 30th	
	Note	**2016**	**2015**	**2016**	**2015**
Revenues					
Royalties and distributions	4	$24,527,403	$17,446,917	$48,780,013	$36,227,126
Interest and other	4	385,586	239,990	698,958	476,596
Total Revenue		24,912,989	17,686,907	49,478,971	36,703,722
Other income					
Gain on partner redemption	4	22,500	-	18,588,007	2,792,457
Realized loss on foreign exchange contracts	8	(722,052)	(659,944)	(2,062,331)	(3,000,160)
Unrealized gain/(loss) on foreign exchange contracts		523,066	707,319	4,393,768	999,288
Total Other income		(176,486)	47,375	20,919,444	791,585
Salaries and benefits		1,572,545	1,301,737	2,137,794	1,805,678
Corporate and office		1,271,615	827,639	2,217,668	1,600,298
Bad debt expense	4	853,122	-	853,122	-
Legal and accounting fees		485,813	591,690	1,292,752	894,473
Impairment of preferred units	4	7,000,000	-	7,000,000	-
Non-cash stock-based compensation	7	1,771,112	1,125,443	2,871,628	2,454,778
Depreciation and amortization		69,119	47,531	138,181	76,823
Subtotal		13,023,326	3,894,040	16,511,145	6,832,050
Earnings from operations		**11,713,177**	**13,840,242**	**53,887,270**	**30,663,257**
Finance costs		1,358,909	696,548	2,875,638	1,480,928
Unrealized foreign exchange loss/(gain)		335,044	1,212,492	14,820,684	(9,553,823)
Earnings before taxes		10,019,224	11,931,202	36,190,948	38,736,152
Deferred income tax expense		3,046,036	1,570,399	7,365,104	3,429,123
Current income tax expense		(69,723)	1,409,527	941,244	4,547,831
Total income tax expense		2,976,313	2,979,926	8,306,348	7,976,954
Earnings		**7,042,911**	**8,951,276**	**27,884,600**	**30,759,198**
Other comprehensive income / (loss)					
Transfer on redemption of preferred units		-	-	(18,686,309)	(2,792,457)
Net change in fair value of Preferred Units		(664,685)	2,176,700	(664,685)	2,176,700
Tax effect on items in other comprehensive income		(90,794)	(1,102,806)	2,400,450	(698,622)
Foreign currency translation differences		(266,687)	(990,910)	(11,770,986)	5,414,611
Other comprehensive income / (loss) for the period, net of income tax		(1,022,166)	82,984	(28,721,530)	4,100,232
Total comprehensive income / (loss) for the period		$6,020,745	$9,034,262	$(836,930)	$34,859,430
Earnings per share					
Basic earnings per share		$0.19	$0.28	$0.77	$0.96
Fully diluted earnings per share		$0.19	$0.27	$0.76	$0.94
Weighted average shares outstanding					
Basic	5	36,309,317	32,175,921	36,306,026	32,165,687
Fully Diluted	5	36,817,179	32,718,833	36,730,479	32,848,703

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the six months ended June 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		-	-	-	-	30,759,198	30,759,198
Other comprehensive income							
Transfer on redemption of preferred units		-	-	(2,792,457)	-	-	(2,792,457)
Net change in fair value of investments at fair value				2,176,700			2,176,700
Tax effect on items in other comprehensive income		-	-	(698,622)	-	-	(698,622)
Foreign currency translation differences		-	-	-	5,414,611	-	5,414,611
Total other comprehensive income		-	-	(1,314,379)	5,414,611	-	4,100,232
Total comprehensive income for the period		$-	$-	$(1,314,379)	$5,414,611	$30,759,198	$34,859,430
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	$-	$2,460,878	$-	$-	$-	$2,460,878
Dividends to shareholders	5	-	-	-	-	(24,292,823)	(24,292,823)
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	1,843,840	-	-	(24,292,823)	(20,626,910)
Balance at June 30, 2015		$500,185,139	$10,702,551	$(3,951,731)	$12,486,028	$24,490,248	$543,912,235

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the six months ended June 30, 2016

	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2016		$617,626,773	$7,525,767	$1,874,903	$27,651,191	$22,367,819	$677,046,453
Total comprehensive income for the period							
Earnings for the period		-	-	-	-	27,884,600	27,884,600
Other comprehensive income							
Transfer on redemption of preferred units		-	-	(18,686,309)	-	-	(18,686,309)
Net change in fair value of investments at fair value		-	-	(664,685)	-	-	(664,685)
Tax effect on items in other comprehensive income		-	-	2,400,450	-	-	2,400,450
Foreign currency translation differences		-	-	-	(11,770,986)	-	(11,770,986)
Total other comprehensive income		-	-	(16,950,544)	(11,770,986)	-	(28,721,530)
Total comprehensive income for the period		$-	$-	($16,950,544)	($11,770,986)	$27,884,600	($836,930)
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	$ -	$2,871,628	$-	$ -	$ -	$2,871,628
Dividends to shareholders	5	-	-	-	-	(29,410,111)	(29,410,111)
Options exercised in the period		266,045	(266,045)	-	-	-	-
Payments in lieu of dividends on RSUs		-	-	-	-	-	-
Total transactions with Shareholders of the Company		266,045	2,605,583	-	-	(29,410,111)	(26,538,483)
Balance at June 30, 2016		$617,892,818	$10,131,352	(15,075,641)	15,880,205	20,842,308	649,671,040

Alaris Royalty Corp.

Condensed consolidated statement of cash flows (unaudited)

For the six months ended June 30

	Note	2016	2015
Cash flows from operating activities			
Earnings from the period		$ 27,884,600	$ 30,759,198
Adjustments for:			
Finance costs		2,875,638	1,480,928
Deferred income tax expense		7,365,104	4,547,831
Depreciation and amortization		138,181	76,823
Bad debt expense		853,122	-
Impairment of preferred units		7,000,000	-
Gain on partner redemption		(18,588,007)	(2,792,457)
Unrealized (gain) / loss on foreign exchange contracts		(4,393,768)	616,966
Unrealized foreign exchange (gain) / loss		14,820,684	(9,553,823)
Non-cash stock-based compensation		2,871,628	2,454,778
		$ 40,827,182	$ 27,590,244
Change in:			
-trade and other receivables		(6,133,863)	1,378,603
-income tax receivable		(4,502,808)	-
-prepayments and deposits		768,936	(6,804,836)
-trade and other payables		(1,704,981)	2,258,918
Cash generated from operating activities		29,254,466	24,422,929
Finance costs		(2,875,638)	(1,480,928)
Net cash from operating activities		$ 26,378,828	$ 22,942,001
Cash flows from investing activities			
Acquisition of equipment		$ (27,551)	$ (486,092)
Acquisition of preferred LP units		(83,386,831)	(146,918,721)
Proceeds from partner redemptions, reduction of interest		38,517,202	44,300,000
Net cash used in investing activities		$ (44,897,180)	$ (103,104,813)
Cash flows from financing activities			
New share capital, net of share issue costs		$ -	$ -
Proceeds from exercise of options		-	1,205,035
Repayment of debt		(22,000,000)	(40,500,000)
Proceeds from debt		70,943,300	149,200,000
Promissory notes issued		(6,350,000)	(3,000,000)
Promissory notes repaid		312,500	3,230,055
Dividends paid		(29,405,612)	(24,118,995)
Deposits with CRA		(1,364,703)	-
Net cash used in financing activities		$ 12,135,485	$ 86,016,095
Net increase in cash and cash equivalents		$ (6,382,866)	$ 5,853,283
Impact of foreign exchange on cash balances		(3,586,644)	1,200,761
Cash and cash equivalents, Beginning of period		20,990,702	13,483,524
Cash and cash equivalents, End of period		$ 11,021,192	$ 20,537,568

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 six months ended June 30, 2016 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 ("Alaris USA") 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, 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

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, 2015. These interim financial statements were approved by the Board of Directors on July 26, 2016.

(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 (Investments at Fair Value) are measured at fair value with changes in fair value recorded in other comprehensive income or earnings if the asset is impaired.
- 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. 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 pools

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 year ended December 31, 2015.

These condensed consolidated interim financial statements were prepared on the same basis of the audited financial statements for the year ending December 31, 2015.

4. Investments

Investments at Fair Value

30-Jun-16	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LMS	$ 59,886,867	667,860	60,554,727	39,021,449
Solowave	42,500,000	511,253	43,011,253	51,724,000
KMH	54,800,000	589,147	55,389,147	28,001,153
Labstat	47,200,000	518,944	47,718,944	46,998,945
Agility Health	26,144,070	809,651	26,953,721	26,021,814
SCR	40,000,000	487,339	40,487,339	30,488,338
Sequel	95,601,450	742,655	96,344,105	105,733,858
Group SM	40,500,000	732,310	41,232,310	42,632,309
Kimco	41,882,540	1,297,556	43,180,096	37,639,113
Planet Fitness	52,028,000	815,943	52,843,943	54,664,924
DNT	91,049,000	732,210	91,781,210	93,732,259
Federal Resources	17,252,651	1,805,509	19,058,160	19,357,263
MAHC	17,266,794	1,288,231	18,555,025	18,555,027
Sandbox	28,615,400	907,940	29,523,340	29,567,981
Providence	39,078,000	522,002	39,600,002	39,542,793
Capitalized costs	-	5,000	5,000	5,000
Total LP and LLC Units	693,809,772	12,267,911	706,072,683	663,686,226
FR Loan Receivable	52,028,000	-	52,028,000	52,028,000
Total Investments at Fair Value	745,837,772	12,267,911	758,100,683	715,714,226
31-Dec-15	**Acquisition Cost**	**Capitalized Cost**	**Net Cost**	**Fair Value**
LifeMark Health	$ 19,502,159	$ 499,894	$ 20,002,053	$ 38,467,202
LMS	54,228,822	333,280	54,562,102	33,028,822
Solowave	42,500,000	511,253	43,011,253	50,474,000
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	27,870,660	863,121	28,733,781	27,724,336
SCR	40,000,000	487,339	40,487,339	32,988,339
Sequel	101,915,100	791,701	102,706,801	108,903,516
SMi	40,500,000	717,310	41,217,310	42,617,310
Kimco	44,648,520	1,341,585	45,990,105	45,352,269
Planet Fitness	55,464,000	869,829	56,333,829	58,275,071
DNT	97,062,000	780,566	97,842,566	97,842,566
Federal Resources	9,706,200	1,567,062	11,273,262	11,273,262
MAHC	18,407,116	1,114,882	19,521,998	19,521,998
Capitalized costs	-	176,579	176,579	176,579
Total LP and LLC Units	653,804,577	11,162,492	664,967,069	648,645,367
FR Loan Receivable	55,464,000	-	55,464,000	55,464,000
Total Investments at Fair Value	$ 709,268,577	$ 11,162,492	$ 720,431,069	$ 704,109,367

The difference in the acquisition cost of Agility, Sequel, Kimco, Planet Fitness, DNT, Federal Resources, MAHC at June 30, 2016 and December 31, 2015 is due to foreign currency translation.

Investment in Sandbox Acquisitions, LLC (“Sandbox”)

The Corporation holds 556 Class B units, 1,444 Class C units and 1 Class D unit in Sandbox Acquisitions, LLC along with 200,000 Preferred units in Sandbox Advertising Limited Partnership (collectively the “Sandbox units”) acquired on March 8, 2016 for $22.0 million USD. Sandbox offers a wide range of marketing and advertising services including strategic marketing and planning, creative development for all media and digital strategy solutions including CRM and data analytics for clients in a variety of industries within the US and Canada.

Pursuant to the LLC agreement dated March 8, 2016, the Sandbox units entitle the Corporation to receive an initial annual preferred distribution of $3,300,000 USD in priority to distributions on Sandbox's other LLC units. After the initial annual preferred distribution the distribution is an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in Sandbox's gross revenues for the previous fiscal year subject to a maximum increase or decrease of 6%. Distributions on the Sandbox units are receivable monthly.

Sandbox has the option at any time after March 8, 2019 to repurchase the Sandbox units at a pre-negotiated premium to the original purchase price.

Lower Mainland Steel ("LMS") Additional Contribution

On March 16, 2016 Alaris made an additional contribution to LMS of $4.35 million USD ($5.8 million CAD) in exchange for an annual distribution of $622,000 USD (approximately $818,000 CAD) (the "Additional LMS Distribution") for the first full year following closing (for 2016 Alaris will receive the pro-rata portion of the Additional LMS Distribution based on the calendar days remaining in the year). The Additional LMS Distribution will be adjusted annually (with the first reset being January 1, 2018), subject to a 6% collar. LMS used the proceeds from Alaris to fund a portion of the purchase price for a strategic acquisition of a rebar fabricator and installer in California.

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

At December 31, 2015, the Corporation held 6,750,000 preferred units in LifeMark Health. On March 4, 2016, the Corporation redeemed all of its preferred units in LifeMark in exchange for $30 million in cash and an $8.4 million promissory note with interest at 11.15% from Centric Health Corporation ("Centric"). The promissory note, along with all interest accrued and owing, was repaid in full by Centric on March 23, 2016. The Corporation realized a gain on redemption of $18.6 million that had accumulated through comprehensive income over the life of the investment.

Investment in Providence Industries, LLC

On April 1, 2016 the Corporation, through its wholly-owned subsidiary Alaris USA Inc., collectively contributed $30.0 million USD to Providence Industries, LLC ("Providence"). Providence is a leading provider of design, engineering, development, manufacturing and sourcing services for international apparel companies and retailers. The Company utilizes its extensive global network of sourcing and manufacturing partners to provide value-added sourcing excellence to customers, combined with rapid speed to market. In addition, Providence's unique design expertise and focus on innovation enables customers to remain at the forefront of evolving fashion trends.

Pursuant to agreements dated April 1, 2016, the Corporation is entitled to receive an annual preferred distribution of $4.5 million USD in priority to distributions on Providence's common shares. After the initial annual preferred distribution, the distribution is an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in Providence's same customer revenues for the previous fiscal year subject to a maximum increase or decrease of 5%. Distributions on the Providence units are receivable monthly.

Federal Resources Additional Contribution

On April 29, 2016 Alaris contributed $6.5 million USD ($8.15 million CAD) to Federal Resources (the "Additional FED Distribution") in exchange for an annual distribution of $910,000 USD (approximately $1.1 million CAD) for the first full year following closing (for 2016 Alaris will receive the pro-rata portion of the Additional FED Distribution based on the calendar days remaining in the year). The Additional FED Distribution will be adjusted annually (with the first reset being January 1, 2018), subject to a 6% collar. Federal Resources used the proceeds from Alaris to fund a portion of the purchase price for a strategic acquisition of a single point training and support provider to complement Federal Resources existing business.

KMH Limited Partnership ("KMH")

The fair value of the KMH units was decreased to $28 million from $35 million, to reflect the total consideration currently expected to be received on redemption as a result of continuing negotiations for the Corporation to receive more up-front cash and reduce any note payable going forward. The impairment of $7 million was recognized in the second quarter and was recorded as a permanent impairment through earnings. During the period the Corporation also recorded a bad debt expense of $748 thousand related to accrued interest on the KMH outstanding promissory notes.

Intangible Assets:

The Corporation holds intangible assets in End of the Roll, net of accumulated amortization of $1,022,996 (December 31, 2015 - $977,528), of $6,251,924.

Royalties and Distributions:

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

Royalties and distributions:	**Three months ending June 30th**		**Six months ending June 30th**	
	2016	**2015**	**2016**	**2015**
Sequel LLC	$3,804,679	$3,455,161	$7,861,254	$6,943,485
DNT	3,384,413	1,075,725	6,992,897	1,075,725
Federal Resources	2,368,567	118,729	4,797,820	118,729
Planet Fitness LLC	2,008,209	1,613,588	4,144,126	3,242,663
Solowave	1,719,864	1,622,514	3,439,728	3,245,027
Group SM	1,594,134	1,692,000	3,188,268	3,411,097
SCR	1,503,999	1,600,000	3,007,998	3,200,000
Kimco	1,162,608	1,435,938	2,816,214	2,885,658
Labstat	1,374,999	1,500,000	2,749,999	3,000,000
LMS	1,175,980	1,056,241	2,263,173	2,055,112
Agility LLC	991,869	975,592	2,049,407	1,961,659
Providence	1,450,463	-	1,450,462	-
Sandbox	1,063,975	-	1,333,721	-
Mid-Atlantic HealthCare	642,643	-	1,326,966	-
LifeMark	-	1,028,798	730,216	2,057,598
End of the Roll	284,356	272,631	628,576	602,658
KMH	-	-		1,890,000
Killick	-	-		537,715
Total Distributions	$24,527,403	$17,446,917	$48,780,013	$36,227,126
Other Income				
Interest	385,586	239,990	698,958	476,596
Total Income	$ **24,912,989**	**17,686,907**	**49,478,971**	**36,703,722**

Promissory Notes:

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. The terms of the various notes differ: the KMH note is a demand note and payment has been demanded though timing of collection is uncertain; the Labstat note (interest at 7%) is due July 2017; the SMI note is a demand note (interest at 8%) and is expected to be repaid in the next twelve months (SMI has the ability to borrow an additional $2.75 million under the loan agreement); 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 its current receivership process. The

Corporation received partial settlement on the SHS note of $312,500 in March 2016. The remainder is expected to be collected from the receivership process. No interest is currently being accrued on the KMH and SHS notes. At June 30, 2016, the following is a summary of the outstanding promissory notes:

Partner	30-Jun-16	31-Dec-15
Current		
Group SM	16,600,000	10,250,000
SHS	1,187,500	1,500,000
Total Current	$17,787, 500	$11,750,000
Non-Current		
KMH	$3,500,000	$3,500,000
Labstat	3,734,945	3,734,945
Total Non-current	7,234,945	7,234,945
Total	**$25,022,445**	**$18,984,945**

Trade receivables are due mostly from three partner companies with approximately half of the outstanding balance over 90 days. Group SM is approximately 48% ($7.3 million) and includes unpaid distributions from July 2015 through June 2016 plus accrued interest on short term loans the full amount of which is expected to be paid in 2016 following a successful outcome of an international lawsuit. Kimco is approximately 38% ($5.7 million) and includes unpaid distributions from July 2015 through June 2016 which amounts are expected to be paid in the next twelve months based on a budget prepared by Kimco management. Labstat is approximately 9% ($1.3 million) and includes the cash flow sweep for 2016 distributions. No allowance for doubtful accounts has been recorded at June 30, 2016 as the Corporation believes that all amounts recorded at June 30, 2016 will be realized. Should there be an adverse event in Kimco's or Group SM's businesses, collection could be negatively impacted. For the six month period ended June 30, 2016 the Corporation wrote off accounts receivables of $853,122, relating to accrued interest on outstanding promissory notes to KMH ($748,027) and SHS ($105,095).

5. Share capital:

Issued Common Shares	Number of Shares	Amount
Balance at January 1, 2015	32,072,358	$ 498,363,066
Issued by short form prospectus	3,771,655	115,035,478
Short form prospectus costs, net of tax	-	(4,010,958)
Issued after director RSU vesting	170,585	3,795,607
Options exercised in the period	288,138	3,956,988
Fair value of options exercised in the period	-	486,592
Balance at December 31, 2015	36,302,736	$ 617,626,773
Issued after employee RSU vesting	500	-
Options exercised in the period	32,821	-
Fair Value of Options Exercised	-	266,045
Balance at June 30, 2016	36,336,057	$ 617,892,818

The Corporation has authorized, issued and outstanding, 36,336,057 voting common shares as at June 30, 2016.

Weighted Average Shares Outstanding	Three months ending June 30th		Six months ending June 30th	
	2016	2015	2016	2015
Weighted average shares outstanding, basic	36,309,317	32,175,921	36,306,026	32,165,687
Effect of outstanding options	232,905	281,977	149,996	422,081
Effect of outstanding RSUs	274,957	260,935	274,457	260,935
Weighted average shares outstanding, fully diluted	36,817,179	32,718,833	36,730,479	32,848,703

760,601 options were excluded from the calculation as they were anti-dilutive at June 30, 2016.

Dividends

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

In each of the first six months of 2016, the Corporation declared a dividend of $0.135 per common share ($0.81 per share and $29,410,111 in aggregate). For the six months ended June 30, 2015, dividends of $0.755 per share and $24,292,820 in aggregate were declared.

6. Loans and borrowings:

As at June 30, 2016 the Corporation has a $200 million credit facility with a syndicate of Canadian chartered banks. The interest rate on the facility is prime plus 2.25% (4.95% at June 30, 2016). The covenants on the new facility include a maximum debt to EBITDA of 1.5:1 (can extend to 2.25:1 for up to 90 days), minimum tangible net worth of $450 million; and a minimum fixed charge coverage ratio of 1:1. At June 30, 2016, the facility was $124.8 million drawn. At June 30, 2016, the Corporation met all of its covenants as required by the facility. Those covenants include a maximum debt to EBITDA of 2.25:1 (1.64:1 at June 30, 2016); minimum tangible net worth of $450.0 million ($643.4 million at June 30, 2016); and a minimum fixed charge coverage ratio of 1:1 (1.17:1 at June 30, 2016).

Interest is payable at the lenders’ prime rate plus 2.25% (4.95% at June 30, 2016).

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 501,683 and issued 274,457 RSUs to management and Directors as of June 30, 2016. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (186,080) do not vest until the end of a three-year period (41,119 in July 2016; 12,681 in July 2017; and 132,280 in July 2018) 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 2,300,898 and issued 1,899,484 options as of June 30, 2016. The options outstanding at June 30, 2016, have an exercise price in the range of $16.87 to $33.87, a weighted average exercise price of $27.34 and a weighted average contractual life of 2.48 years (2015 – 2.49 years).

For the three and six months ended June 30, 2016, the Corporation incurred stock-based compensation expenses of $1,771,112 and $2,871,628 (2015 - $1,125,443 and $2,454,778) which includes: $1,371,376 and $2,056,850 (non-cash expense) for the RSU Plan expense (2015 - $612,045 and $1,409,927); and $399,736 and $814,778 (non-cash expense) for the amortization of the fair value of outstanding stock options (2015 - $513,398 and $1,044,851).

8. Fair Value of Financial Instruments

The Corporation's financial instruments as at June 30, 2016 and December 31, 2015 include cash and cash equivalents, trade and other receivables, income tax receivable, promissory notes receivable, investments at fair value, 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, income tax receivable, 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. Foreign exchange contracts are recorded at fair value determined by individual contract rates and the June 30, 2016 foreign exchange spot rate. The fair values of the investments at fair value 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 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 June 30, 2016.

(b) A redemption or retraction value is used when the partner company has indicated to the Corporation that they intend to repurchase the preferred position and 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 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 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). The Corporation's investment in KMH was valued on this basis at June 30, 2016.

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 June 30, 2016 and December 31, 2015, are measured at fair value on a recurring basis using level 2 or level 3 inputs. During the period ended June 30, 2016 there were no transfers between level 2 or level 3 classified assets and liabilities.

30-Jun-16	**Level 1**	**Level 2**	**Level 3**	**Total**
Foreign exchange contracts	$ -	$ (951,721)	$-	$ (951,721)
Investments at fair value	-	-	715,714,226	715,714,223
	-	(951,721)	715,714,226	714,762,502
December 31, 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Foreign exchange contracts	$-	$(5,345,488)	$-	$(5,345,488)
Investments at fair value	-	-	704,109,367	704,109,367
	$-	$(5,345,488)	$704,109,367	$698,763,879

9. Commitments and Contingencies:

In 2009, the Corporation signed a seven-year lease that commenced December 1, 2009, ending November 30, 2016. In December 2015, 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:

2016	$	215,337
2017		410,494
2018		421,033
2019		431,572
2020		215,786
	$	1,694,222

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. 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 (the "Reassessments"). Pursuant to the Reassessments, the deduction of approximately $110 million of non-capital losses by the Corporation was denied, resulting in reassessed taxes and interest of approximately $34.2 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 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 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. The Corporation paid $1.27 million in deposits in 2014 and an additional $10.7 million in 2015 relating to these reassessments. In the three months ending March 31, 2016, the Corporation paid a $1.3 million deposit to the Alberta Treasury Board and Finance. 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 $7.7 million at June 30, 2016 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 of approximately $7.7 million at June 30, 2016.