Unaudited Condensed Consolidated Interim Financial Statements of

ALARIS ROYALTY CORP.

For the three and six months ended June 30, 2017

Alaris Royalty Corp.
Condensed consolidated statement of financial position (unaudited)
As at June 30

	Note	30-Jun 2017	31-Dec 2016
Assets			
Cash and cash equivalents		$ 15,182,452	$ 29,490,843
Prepayments		1,476,765	2,097,070
Foreign exchange contracts	9	1,192,441	-
Trade and other receivables	4	16,735,610	16,762,204
Income tax receivable		1,294,798	-
Investment tax credit receivable	8	3,000,000	3,653,719
Promissory notes receivable	4	43,822,445	21,922,445
Current Assets		$ 82,704,511	$ 73,926,281
Promissory notes and other receivables	4	13,631,243	7,891,312
Deposits	8	16,324,033	16,255,771
Equipment		591,291	647,445
Intangible assets	4	6,160,987	6,206,456
Investments at fair value	4	670,740,795	681,093,370
Deferred income taxes	8	1,921,373	-
Investment tax credit receivable	8	747,512	1,200,604
Non-current assets		710,117,234	713,294,958
Total Assets		**$ 792,821,745**	**$ 787,221,239**
Liabilities			
Accounts payable and accrued liabilities		$ 2,730,891	$ 3,057,457
Dividends payable		4,919,959	4,905,368
Foreign exchange contracts	9	-	712,349
Income tax payable		2,180,884	2,007,244
Current Liabilities		9,831,734	10,682,418
Deferred income taxes	8	24,093,107	22,457,580
Loans and borrowings	6	113,956,998	99,382,999
Non-current liabilities		138,050,105	121,840,579
Total Liabilities		**$ 147,881,839**	**$ 132,522,997**
Equity			
Share capital	5	$ 620,132,983	$ 617,892,818
Equity reserve	7	11,114,785	11,628,364
Fair value reserve		(24,480,041)	(27,930,940)
Translation reserve		15,105,896	23,029,120
Retained earnings		23,066,283	30,078,880
Total Equity		**$ 644,939,906**	**$ 654,698,242**
Total Liabilities and Equity		**$ 792,821,745**	**$ 787,221,239**

Commitments, contingencies & guarantees	10

Alaris Royalty Corp.

Condensed consolidated statement of comprehensive income / loss (unaudited)

For the six month period ended June 30

	Note	Three months ended June 30		Six months ended June 30	
		2017	2016	2017	2016
Revenues					
Royalties and distributions	4	$ 21,752,044	$ 24,527,403	$ 42,142,835	$ 48,780,013
Interest and other	4	1,026,647	385,586	1,521,530	698,958
Total Revenue		22,778,691	24,912,989	43,664,365	49,478,971
Other income / expense					
Gain on partner redemption		-	22,500	-	18,588,007
Realized gain / (loss) on foreign exchange contracts		(130,339)	(722,052)	(479,704)	(2,062,331)
Total Other income / expense		(130,339)	(699,552)	(479,704)	16,525,676
Salaries and benefits		1,439,553	1,572,545	2,075,904	2,137,794
Corporate and office		1,044,020	1,271,615	1,768,781	2,217,668
Legal and accounting fees		339,506	485,813	877,882	1,292,752
Non-cash stock-based compensation	7	885,462	1,771,112	1,726,587	2,871,628
Bad debt expense	4	-	853,122	-	853,122
Impairment and other charges	4	1,473,922	7,000,000	1,473,922	7,000,000
Depreciation and amortization		67,176	69,119	133,924	138,181
Total Operating Expenses		5,249,639	13,023,326	8,057,000	16,511,145
Earnings before the undernoted		**17,398,713**	**11,190,111**	**35,127,661**	**49,493,502**
Finance costs	6	1,069,776	1,358,909	3,083,872	2,875,638
Unrealized (gain)/loss on foreign exchange contracts		(1,010,526)	(523,066)	(1,904,962)	(4,393,768)
Unrealized foreign exchange (gain) / loss		4,348,936	335,044	6,476,680	14,820,684
Earnings before taxes		12,990,527	10,019,224	27,472,071	36,190,948
Current income tax expense / (recovery)		2,186,804	(69,723)	4,016,264	941,244
Deferred income tax expense		147,347	3,046,036	948,652	7,365,104
Total income tax expense		2,334,151	2,976,313	4,964,916	8,306,348
Earnings		**$ 10,656,376**	**$ 7,042,911**	**$ 22,507,155**	**$ 27,884,600**
Other comprehensive income					
Transfer on redemption of investments at fair value		-	-	-	(18,686,309)
Net change in fair value of investments at fair value		3,975,000	(664,685)	3,975,000	(664,685)
Tax effect of items in other comprehensive income		(524,101)	(90,794)	(524,101)	2,400,450
Foreign currency translation differences		(5,487,775)	(266,687)	(7,923,224)	(11,770,986)
Other comprehensive (loss) for the period, net of income tax		(2,036,876)	(1,022,166)	(4,472,325)	(28,721,530)
Total comprehensive income / (loss) for the period		**$ 8,619,500**	**$ 6,020,745**	**$ 18,034,830**	**(836,930)**
Earnings per share					
Basic earnings per share	5	$0.29	$0.19	$0.62	$0.77
Fully diluted earnings per share	5	$0.29	$0.19	$0.61	$0.76
Weighted average shares outstanding					
Basic	5	36,483,426	36,309,317	36,467,025	36,306,026
Fully Diluted	5	36,785,090	36,817,179	36,768,689	36,730,479

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the six month period 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
Earnings for the period		$ -	$ -	$ -	$ -	$ 27,884,600	$ 27,884,600
Other comprehensive income / (loss)							
Transfer on redemption of investments at fair value		-	-	(18,686,309)	-	-	(18,686,309)
Net change in 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 / (loss)		-	-	(16,950,544)	(11,770,986)	-	(28,721,530)
Total comprehensive income / (loss) for the period		$ -	$ -	(16,950,544)	$ (11,770,986)	$ 27,884,600	($ 836,930)
Transactions with shareholders of the Company, recognized directly in equity							
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)	-	-	-	-
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**	**$ 10,131,350**	**$ (15,075,641)**	**$ 15,880,205**	**$ 20,842,308**	**$ 649,671,040**

Alaris Royalty Corp.
Condensed consolidated statement of changes in equity (unaudited)
For the six month period June 30, 2017

	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2017		$ 617,892,818	$ 11,628,364	($ (27,930,940)	$ 23,029,120	$ 30,078,880	$ 654,698,242
Earnings for the period		$ -	$ -	$ -	$ -	$ 22,507,155	$ 22,507,155
Other comprehensive loss							
Net change in investments at fair value		-	-	3,975,000	-	-	3,975,000
Tax effect on items in other comprehensive income		-	-	(524,101)	-	-	(524,101)
Foreign currency translation differences		-	-	-	(7,923,224)	-	(7,923,224)
Total other comprehensive loss		-	-	3,450,899	(7,923,224)	-	(4,472,325)
Total comprehensive income / (loss) for the period		$ -	$ -	$ 3,450,899	$ (7,923,224)	$ 22,507,155	$ 18,034,830
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	7	$ -	$ 1,726,587	$ -	$ -	$ -	$ 1,726,587
Dividends to shareholders	5	-	-	-	-	(29,519,751)	(29,519,751)
Options / RSU's exercised in the period		2,240,165	(2,240,165)	-	-	-	-
Total transactions with Shareholders of the Company		2,240,165	(513,578)	-	-	(29,519,751)	(27,793,164)
Balance at June 30, 2017		**$ 620,132,983**	**$ 11,114,785**	**$ (24,480,041)**	**$ 15,105,896**	**$ 23,066,283**	**$ 644,939,906**

Alaris Royalty Corp.

Condensed consolidated statement of cash flows (unaudited)

For the six month period ended June 30

		Six months ended June 30	
		2017	**2016**
Cash flows from operating activities			
Earnings from the period		$ 22,507,155	$ 27,884,600
Adjustments for:			
Finance costs	6	3,083,872	2,875,638
Deferred income tax expense	8	948,652	7,365,104
Depreciation and amortization		133,924	138,181
Bad debt expense		-	853,122
Impairment and other charges	4	1,473,922	7,000,000
Gain on partner redemption		-	(18,588,007)
Unrealized gain on foreign exchange contracts		(1,904,962)	(4,393,768)
Unrealized foreign exchange loss		6,476,680	14,820,684
Non-cash stock-based compensation	7	1,726,587	2,871,628
		$ 34,445,830	$ 40,827,182
Change in:			
- trade and other receivables	4	26,594	(6,133,863)
- income tax receivable / payable	8	(1,699,468)	(4,502,808)
- prepayments		620,305	768,936
- accounts payable and accrued liabilities		(326,566)	(1,704,981)
Cash generated from operating activities		33,066,695	29,254,466
Finance costs	6	(3,083,872)	(2,875,638)
Net cash from operating activities		$ 29,982,823	$ 26,378,828
Cash flows from investing activities			
Acquisition of equipment		$ (32,302)	$ (27,551)
Acquisition of preferred units	4	(31,832,335)	(83,386,831)
Proceeds from partner redemptions	4	12,498,877	38,517,202
Promissory notes issued	4	(11,959,926)	(6,350,000)
Promissory notes repaid		-	312,500
Net cash used in investing activities		$ (31,325,686)	$ (50,934,680)
Cash flows from financing activities			
Repayment of debt		-	(22,000,000)
Proceeds from debt		17,189,900	70,943,300
Dividends paid	5	(29,505,160)	(29,405,612)
Deposits with CRA	8	(68,262)	(1,364,703)
Net cash from / (used in) financing activities		$ (12,383,522)	$ 18,172,985
Net increase / (decrease) in cash and cash equivalents		$ (13,726,385)	$ (6,382,867)
Impact of foreign exchange on cash balances		(582,006)	(3,586,644)
Cash and cash equivalents, Beginning of period		29,490,843	20,990,702
Cash and cash equivalents, End of period		$ 15,182,452	$ 11,021,191
Cash taxes paid		$ 5,117,768	$ 4,130,100

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 and six months ended June 30, 2017 comprise Alaris Royalty Corp. and its subsidiaries (together referred to as the "Corporation"). The Corporation's Canadian operations are conducted through a partnership (Alaris Income Growth Fund Partnership) and Salaris Small Cap. Royalty Corp. ("Salaris"). The Corporation's American operations are conducted through two Delaware Corporations, Alaris USA ("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 wholly-owned subsidiaries in the Netherlands, Alaris Cooperatief U.A. ("Alaris Cooperatief") and Salaris Cooperatief U.A. ("Salaris Cooperatief").

2. **Statement of compliance:**

(a) Statement of compliance

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

These consolidated financial statements were approved by the Board of Directors on July 25, 2017.

(b) Basis of measurement

The consolidated 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 consolidated 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 and Salaris Cooperatief have the Canadian dollar as the functional currencies.

(d) Use of estimates and judgments

The preparation of the consolidated 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. See note 9 for details in respect of the calculation.

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.

Utilization of tax pools

Management makes estimates on future taxable income that generates the calculations for the deferred income tax expense, assets and liabilities. Refer to note 8 for an analysis of the Corporation's ability to utilize certain non-capital losses and investment tax credits.

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:

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, 2016 and 2015.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Corporation, except for IFRS 9, Financial Instruments, effective for fiscal years beginning on or after January 1, 2018, which could change the classification and measurement of financial assets. In addition, the application of the expected credit loss model on trade and other receivables and promissory notes could be significant. The Corporation does not plan to adopt this standard early and is currently analyzing the impact of the standard and will disclose their impact with their December 31, 2017 audited financial statements.

4. Investments

Investments at Fair Value

30-Jun-17	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LMS	$ 60,033,897	$ 655,901	$ 60,689,798	$ 35,134,735
Labstat	47,200,000	518,944	47,718,944	57,498,944
Agility Health	26,180,250	810,771	26,991,021	26,074,093
SCR	40,000,000	487,339	40,487,339	30,488,338
Sequel	95,733,750	957,715	96,691,465	106,092,373
Group SM	40,500,000	717,310	41,217,310	36,767,310
Kimco	44,541,922	1,299,352	45,841,274	30,136,701
Planet Fitness	52,100,000	817,073	52,917,073	57,111,123
DNT	88,480,800	733,223	89,214,023	93,314,922
FED	16,996,079	1,796,459	18,792,538	21,079,458
Sandbox	28,655,000	892,773	29,547,773	29,620,782
Providence	39,075,000	506,409	39,581,409	39,597,511
Matisia	23,217,064	640,221	23,857,285	23,857,287
ccComm.	5,210,001	197,028	5,407,030	5,407,023
Accscient	25,887,188	548,000	26,435,188	26,435,188
Capitalized costs	-	25,007	25,007	25,007
Total LP and LLC Units	633,810,951	11,603,524	645,414,475	618,640,795
FED Loan Receivable	52,100,000	-	52,100,000	52,100,000
Total Investments at Fair Value	**$ 685,910,951**	**$ 11,603,524**	**$ 697,514,475**	**$ 670,740,795**
31-Dec-16	**Acquisition Cost**	**Capitalized Cost**	**Net Cost**	**Fair Value**
LMS	$ 60,033,897	$ 655,901	$ 60,689,798	$ 36,214,585
KMH	54,800,000	589,147	55,389,147	26,946,832
Labstat	47,200,000	518,944	47,718,944	49,198,944
Agility Health	27,074,700	838,471	27,913,171	26,964,917
SCR	40,000,000	487,339	40,487,339	30,488,338
Sequel	99,004,500	769,091	99,773,591	109,497,583
Group SM	40,500,000	717,310	41,217,310	40,217,310
Kimco	46,063,700	1,343,744	47,407,444	31,166,324
Planet Fitness	53,880,000	844,988	54,724,988	59,062,328
DNT	94,290,000	758,273	95,048,273	99,197,034
FED	17,576,751	1,857,835	19,434,586	21,799,640
Sandbox	29,634,000	923,274	30,557,274	30,538,438
Providence	40,410,000	523,710	40,933,710	40,950,364
Matisia	24,010,276	662,095	24,672,371	24,672,373
Capitalized costs	-	298,360	298,360	298,360
Total LP and LLC Units	674,477,824	11,788,483	686,266,307	627,213,370
FED Loan Receivable	53,880,000	-	53,880,000	53,880,000
Total Investments at Fair Value	**$ 728,357,824**	**$ 11,788,483**	**$ 740,146,307**	**$ 681,093,370**

The difference in the acquisition cost of Agility, Sequel, Kimco, Planet Fitness, FED, Sandbox, Providence and Matisia at June 30, 2017 and December 31, 2016 is due to foreign currency translation.

Investment in ccCommunications LLC ("ccComm")

The Corporation, contributed US$4 million (approximately CAD$5.4 million) to ccComm on January 10, 2017 in exchange for an annualized distribution of US$0.6 million (approximately CAD$0.8 million). ccComm is a Sprint retailer with over 50 locations throughout the Northwest and Central U.S. The reset metric is net revenue with a collar of plus or minus 6%.

Redemption of KMH Units

Total consideration of $30.5 million ($9.8 million of cash and $20.7 million of secured notes payable) was exchanged for the redemption of all outstanding preferred units (the "Alaris Preferred Units") and the outstanding $3.5 million promissory note. The $20.7 million of notes payable are secured by way of first security on KMH's U.S. business, a right to the residual value in certain real estate assets owned by a related party to KMH, and a preferred liquidation position on the equity in the Canadian business retained by KMH's owners as a result of the Third Party Sale. The Corporation received $9.8 million of cash (the "KMH Proceeds") from KMH Limited Partnership ("KMH"). The KMH Proceeds were received as a result of their ongoing strategic process.

As a result of the redemption of all outstanding KMH units, the Corporation has no remaining investments at fair value as of June 30, 2017 relating to KMH. The Corporation expects to receive the outstanding secured note ("KMH Secured Note") in three different tranches (the first two tranches totaling $12.4 million within the next six months with the remaining $8.2 million collected over a longer term period) as KMH continues with the strategic process and recapitalization of their U.S. business.

As the redemption of the KMH units and the $3.5 million promissory notes resulted in an extinguishment of financial assets, the Corporation recorded a loss of $1.5 million, representing the difference between the carrying value of the assets given up and the fair value of the consideration received. The fair value of the consideration received was calculated as the face value of the short term secured note plus the discounted value of the long-term secured note. The long term secured note was discounted using a five year term and a 5% discount rate. The fair value difference will be accreted to its face value over its estimated five year term. The loss was recorded in impairment and other charges during the quarter.

Investment in Accscient LLC ("Accscient")

The Corporation has contributed US$20.0 million (CAD$26.4 million) (the "Accscient Contribution") into Accscient LLC in exchange for an annualized distribution of US$3.0 million (CAD$3.9 million) (the "Accscient Distribution"), representing a 15% yield. The Accscient Distribution will be reset for the first time on January 1, 2019 based on the percentage change in gross profit with a collar of plus or minus 5%. The Accscient Contribution is made up of US$14.0 million of permanent units (the "Permanent Units") as well as US$6.0 million of redeemable units (the "Redeemable Units"). The Redeemable Units can be redeemed at par by the issuer at any time up to the third anniversary following the closing of the Accscient Contribution at Accscient's discretion. After the third anniversary the Redeemable Units will have the same repurchase metrics as the Permanent Units.

Return of US$2 million of Redeemeable Units from DNT

As per the terms of the partnership agreement, DNT returned US$2 million (CAD$2.7 milion) as calculated based on their excess cash flow sweep. The return of $2 million of redeemable shares results in US$68 million of invested capital (US$40 million permanent units in addition to US$28 million of redeemable units).

Royalties and Distributions:

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

Royalties and distributions:	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Sequel	$ 4,117,571	$ 3,804,679	$ 8,168,228	$ 7,861,254
DNT	3,708,693	3,384,413	7,391,888	6,992,897
FED	2,847,082	2,368,567	5,642,779	4,797,820
Labstat	2,250,000	1,374,999	3,750,000	2,749,999
Planet Fitness	2,216,580	2,008,209	4,360,975	4,144,126
Providence	1,513,763	1,450,463	3,002,925	1,450,462
LMS	1,181,281	1,175,980	2,386,850	2,263,173
Sandbox	1,109,145	1,063,975	2,200,143	1,333,721
Agility Health	1,028,959	991,869	2,041,196	2,049,407
Matisia	908,257	-	1,801,755	-
Group SM	350,000	1,594,134	350,000	3,188,268
End of the Roll	296,952	284,356	651,532	628,576
ccComm	201,835	-	372,638	-
Accscient	21,926	-	21,926	-
Solowave	-	1,719,864	-	3,439,728
Kimco	-	1,162,608	-	2,816,214
SCR	-	1,503,999	-	3,007,998
MAHC	-	642,643	-	1,326,996
LifeMark Health	-	-	-	730,216
Total Distributions	$ 21,752,044	$ 24,527,403	$ 42,142,835	$ 48,780,013
Other Income				
Interest	1,026,647	385,586	1,521,530	698,958
Total Income	**$ 22,778,691**	**$ 24,912,989**	**$ 43,664,365**	**$ 49,478,971**

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

Trade & Other Receivables Continuity	30-Jun-17	31-Dec-16
Group SM (1)	11,841,949	11,217,992
Agility (2)	1,619,776	2,382,291
Labstat (3)	2,514,665	2,467,655
Other Receivables	759,220	694,267
Balance at June 30, 2017	**16,735,610**	**16,762,204**

(1) Group SM includes unpaid distributions from July 2015 through December 2016 plus accrued interest on short term loans the full amount of which is expected to be collected in 2017. To receive the entire amounts outstanding in 2017 it is required that Group SM be ruled in favor and collect the proceeds from an on-going international arbitration.

(2) Agility represents US$1.2 million (2016 – US$1.7 million) in unpaid distributions which were accrued from March to September 2016, as they underwent a strategic process. Amounts are expected to be collected in 2017 and in March through June 2017, Agility reduced their outstanding balance by US$525 thousand, in addition to its regular distributions. Agility is currently under default of its partnership agreement but has agreed to continue to make incremental monthly installments (in addition to their contracted distribution) of US$150 thousand until the strategic process has been completed.

(3) Labstat includes the cash flow sweep for 2017 distributions. The Corporation collected $2.1 million in the current period relating to 100% of the 2016 cash sweep.

Should there be an adverse event in Labstat, Agility's or Group SM's businesses, collection could be negatively impacted.

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. The terms of the various notes differ at June 30, 2017, the following is a summary of the outstanding promissory notes.

Promissory Notes and Other Receivables	30-Jun-17	31-Dec-16
Current		
Group SM (3)	$26,500,000	$17,000,000
KMH Secured Loan (1)	12,400,000	-
Labstat (2)	3,734,945	3,734,945
SHS (4)	1,187,500	1,187,500
Total Current	$43,822,445	$21,922,445
Non-Current		
KMH (1)	$-	$3,500,000
KMH Secured Loan (1)	6,780,004	-
Kimco (5)	6,851,238	4,391,312
Total Non-current	$13,631,243	$7,891,312
Balance at June 30, 2017	**$57,453,688**	**$29,813,757**

(1) The $3.5 million KMH note was repaid in full during the period as part of the strategic process. In negotiating the receipt of the note and the Corporation's $26.9 million liquidation value, the Corporation exchanged all outstanding preferred shares and outstanding promissory note for $10.3 million cash and $20.7 million secured loan. The Corporation expects to receive approximately $12.4 million of the loan within the next six months as the remainder of the strategic process is completed. The remainder of approximately $8.3 million will be over time and is secured by the remaining US operations and other capital assets. Due to the long term collection horizon, the Corporation has discounted this portion of the outstanding secured loan using a five year term and a 5% discount rate (reflective of their previous secured lender). The note will be accreted to the face value of the note over its estimated five year life. The current portion of the secured loan is interest bearing at 6% per annum beginning January 1, 2018. The secured long term loan and the prior period promissory note are non-interest bearing.

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

(3) During the period ended June 30, 2017 the Corporation provided $4.5 million to Group SM as short term financing as they transitioned between senior credit facility lenders. The $5 million loaned in Q1 2017 as well as the additional $4.5 million loaned in Q2 2017 is being used by Group SM to fund working capital in lieu of a senior revolving credit facility. The first $9.5 million is secured against outstanding accounts receivable and has first lien on the business (prior to their third party debt of $27.7 million) and is accruing interest at average rate of 10% per annum. This has reduced debt senior to the Corporation's preferred units from $35 million to $27.7 million. In addition Group SM has a $17 million unsecured demand note (interest at 8%) outstanding (subordinate to IAM term loan) and the Corporation expects to be repaid in the next twelve months.

(4) SHS Services Management, LP ("SHS") note is a non-interest bearing and secured against certain assets of the SHS business. The Corporation received partial settlement on the SHS note of $312 thousand in March 2016 and an additional $312 thousand subsequent to June 30, 2017. The remainder of the loan is expected to be repaid in 2017 out of the conclusion of the receivership process.

(5) Accrued distributions totaling US$4.5 million were reclassified to long-term receivables during the quarter ended December 31, 2016. Upon reclassification, the amounts due were discounted to reflect the long-term collection horizon. The Corporation contributed an additional US$2 million during the three month period ended June 30, 2017 to provide Kimco with balance sheet flexibility to grow the business under new management. The US$2 million note is expected to be repaid in 2018 and Kimco is currently paying monthly interest of 8%. The carrying value at June 30, 2017 reflects that the Corporation expects to receive these amounts over a five year period.

Intangible Assets:

The Corporation holds intangible assets in End of the Roll of $6,160,987 (December 31, 2016 - $6,206,456), net of accumulated amortization of $1,113,933 (December 31, 2016 - $1,068,465).

5. Share capital:

Issued Common Shares	Number of Shares	Amount($)
Balance at January 1, 2016	36,302,736	$ 617,626,773
Issued after employee vesting	500	-
Cashless options exercised in the period	32,821	-
Fair value of options exercised in the period	-	266,045
Balance at December 31, 2016	36,336,057	$ 617,892,818
Issued after employee / director vesting	72,369	1,802,417
Cashless options exercised in the period	35,711	-
Fair value of options exercised in the period	-	437,748
Balance at June 30, 2017	**36,444,137**	**$ 620,132,983**

The Corporation has authorized, issued and outstanding, 36,444,137 voting common shares as at June 30, 2017.

Weighted Average Shares Outstanding	Three months ending June 30		Six months ended June 30	
	2017	2016	2017	2016
Weighted average shares outstanding, basic	36,483,426	36,309,317	36,467,025	36,306,026
Effect of outstanding options	-	232,905	-	149,996
Effect of outstanding RSUs	301,664	274,957	301,664	274,457
Weighted average shares outstanding, fully diluted	36,785,090	36,817,179	36,768,689	36,730,479

2,079,671 options were excluded from the calculation as they were anti-dilutive at June 30, 2017.

Dividends

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

In each of the first six months of 2017, the Corporation declared a dividend of $0.135 per common share ($0.81 per share and $29,519,751 in aggregate). In each of the 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).

6. Loans and borrowings:

As at June 30, 2017 the Corporation has a $200 million credit facility with a syndicate of Canadian chartered banks, the facility has a four year term with a maturity date in September 2020. The interest rate on the facility is prime plus 2.25% (4.95% at June 30, 2017) when Funded Debt to Contract EBITDA is below 1.75:1 and prime plus 2.75% when Funded Debt to Contract EBITDA is above 1.75:1. The covenants on the facility include a maximum debt to EBITDA of 1.75:1 (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, 2017, the facility was $113.9 million drawn.

At June 30, 2017, the Corporation met all of its covenants as required by the facility. Those covenants include a maximum funded debt to contracted EBITDA of 1.75:1 (actual ratio is 1.33:1 at June 30, 2017); minimum tangible net worth of $450.0 million (actual amount is $638.8 million at June 30, 2017); and a minimum fixed charge coverage ratio of 1:1 (actual ratio is 1.18:1 at June 30, 2017).

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 265,545 RSUs to management and Directors as of June 30, 2017. The RSUs issued to directors (88,377) vest over a three year period. The RSUs issued to management (177,168) do not vest until the end of a three year period (11,088 in July 2017, 119,000 in July 2018; and 47,080 in July 2019) 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 3,097,751 and issued 2,079,671 options as of June 30, 2017. The options outstanding at June 30, 2017, have an exercise price in the range of $22.33 to $33.87, a weighted average exercise price of $26.47 and a weighted average contractual life of 2.45 years (2016 – 2.48 years).

For the three months ended June 30, 2017, the Corporation incurred stock-based compensation expenses of $885,462 (2016 - $1,771,112) which includes: $573,839 (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2016 - $1,371,376); and $311,622 (non-cash expense) for the amortization of the fair value of outstanding stock options (2016 - $399,736). For the six months ended June 30, 2017, the Corporation incurred stock-based compensation expenses of $1,726,587 (2016 - $2,871,628) which includes: $1,140,529 (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2016 - $2,056,850); and $586,058 (non-cash expense) for the amortization of the fair value of outstanding stock options (2016 - $814,778).

During the three month period ending June 30, 2017 no shares, RSU's or options were granted. During the six month period ending June 30, 2017, the Corporation issued 35,711 shares as a result of the exercise of options exercised and 72,369 shares as a result of vested RSUs. In addition, the Corporation granted 551,014 options at a weighted average price of $22.46.

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. In 2016, 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, 2015 (the "Reassessments"). Pursuant to the Reassessments, the deduction of approximately $121 million of non-capital losses and utilization of $2.3 million in investment tax credits by the Corporation was denied, resulting in reassessed taxes and interest of approximately $40.4 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 ("SR&ED") and investment tax credits ("ITC"). 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, SR&ED expenditures and ITC's 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 has paid $16.3 million in deposits relating to these assessments, the total recorded as a long term deposit on the balance sheet. It is possible that the Corporation may be reassessed with respect to the claiming of its ITC's in respect of its tax filings subsequent to December 31, 2015, on the same basis. The Corporation has filed its 2016 tax return including the utilization of $2.9 million of ITC's. The Corporation expects the credits will be denied on assessment. The Corporation will be required to deposit an equivalent of 50% ($1.45 million) of the utilized amount plus interest. The carrying value of the remaining investment tax credits of $3.7 million at June 30, 2017 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.

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 available for sale financial assets (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 June 30, 2017 and December 31, 2016.
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). The Corporation's investment in Agility was valued on this basis at June 30, 2017 and December 31, 2016 and KMH valued on this basis as of December 31, 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, 2017 and December 31, 2016, 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 or six month period ended June 30, 2017.

30-Jun-17	Level 1	Level 2	Level 3	Total
Foreign exchange contracts	$ -	$ 1,192,441	$ -	$ 1,192,441
Investments at fair value	-	-	670,740,795	670,740,795
	$ -	$ 1,192,441	$ 670,740,795	$ 671,933,236
31-Dec-16	**Level 1**	**Level 2**	**Level 3**	**Total**
Foreign exchange contracts	$ -	$ (712,349)	$ -	$ (712,349)
Investments at fair value	-	-	681,093,370	681,093,370
	$ -	($ 712,349)	$ 681,093,370	$ 680,381,021

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 35% to 60% of the expected distributions on a rolling 12 to 24 month basis. The notional value of outstanding foreign exchange contracts is US$33.0 million (US$49.1 million as of December 31, 2016).

10. Commitments, Contingencies and Guarantees:

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

Commitments and Contingencies	30-Jun-17
2017	$ 205,247
2018	421,033
2019	431,572
2020	215,786
Total Commitments and Contingencies	**$ 1,273,638**