Unaudited Condensed Consolidated Interim Financial Statements of

ALARIS ROYALTY CORP.

For the three and nine months ended September 30, 2017

Alaris Royalty Corp.

Condensed consolidated statement of financial position (unaudited)

$ thousands	Note	30-Sep 2017	31-Dec 2016
Assets			
Cash and cash equivalents		$ 12,126	$ 29,491
Prepayments		1,538	2,097
Foreign exchange contracts	9	1,876	-
Trade and other receivables	4	13,554	16,762
Income tax receivable		-	-
Investment tax credit receivable	8	2,650	3,654
Promissory notes receivable	4	28,256	21,922
Current Assets		$ 60,000	$ 73,926
Promissory notes and other receivables	4	33,056	7,891
Deposits	8	19,252	16,256
Equipment		547	647
Intangible assets	4	6,138	6,206
Investments at fair value	4	632,461	681,093
Investment tax credit receivable	8	-	1,201
Non-current assets		691,454	713,295
Total Assets		$ 751,454	$ 787,221
Liabilities			
Accounts payable and accrued liabilities		$ 2,483	$ 3,057
Dividends payable		4,920	4,905
Foreign exchange contracts	9	-	712
Income tax payable		18,878	2,007
Current Liabilities		26,281	10,682
Deferred income taxes	8	9,845	22,458
Loans and borrowings	6	115,080	99,383
Non-current liabilities		124,925	121,841
Total Liabilities		$ 151,206	$ 132,523
Equity			
Share capital	5	$ 620,133	$ 617,893
Equity reserve		11,954	11,628
Fair value reserve		(23,266)	(27,931)
Translation reserve		5,157	23,029
Retained earnings / (deficit)		(13,730)	30,079
Total Equity		$ 600,248	$ 654,698
Total Liabilities and Equity		$ 751,454	$ 787,221
Commitments	10		

Alaris Royalty Corp.

Condensed consolidated statement of comprehensive income / loss (unaudited)

For the three and nine month periods ended September 30

		Three months ended September 30		Nine months ended September 30	
$ thousands except per share amounts	Note	2017	2016	2017	2016
Revenues					
Royalties and distributions	4	$ 22,959	$ 22,867	$ 65,101	$ 71,648
Interest and other	4	816	427	2,333	1,126
Total Revenue		23,775	23,294	67,434	72,774
Other income / expense					
Gain on partner redemptions	4	26,575	1,589	26,575	20,177
Realized gain / (loss) on foreign exchange contracts		998	308	518	(1,754)
Total other income / expense		27,573	1,897	27,093	18,423
Salaries and benefits		665	623	2,741	2,761
Corporate and office		89	428	1,858	2,639
Legal and accounting fees		534	541	1,412	1,837
Non-cash stock-based compensation	7	839	1,026	2,566	3,898
Bad debt expense	4	9,813	-	9,813	853
Impairment and other charges	4	41,017	-	42,491	7,000
Depreciation and amortization		67	69	201	208
Total Operating Expenses		53,025	2,688	61,082	19,196
Earnings / (Loss) before the undernoted		(1,677)	22,503	33,445	72,000
Finance costs	6	1,923	1,523	5,007	4,399
Unrealized (gain) on foreign exchange contracts		(685)	(597)	(2,590)	(4,991)
Unrealized foreign exchange (gain) / loss		8,843	(1,477)	15,320	13,344
Earnings / (Loss) before taxes		(11,758)	23,054	15,709	59,248
Current income tax expense		20,442	4,647	24,458	5,593
Deferred income tax expense / (recovery)		(10,168)	1,381	(9,220)	8,747
Total income tax expense		10,273	6,028	15,238	14,340
Earnings / (Loss)		$ (22,031)	$ 17,026	$ 470	$ 44,909
Other comprehensive income / (loss)					
Transfer on redemption of investments at fair value		$ (8,993)	$ (8,713)	$ (8,993)	$ (27,399)
Transfer from fair value reserve to impairment and other charges		4,250	-	4,250	-
Net change in fair value of investments at fair value		5,769	(3,169)	9,744	(3,833)
Tax effect of items in other comprehensive income		189	530	(335)	5,421
Foreign currency translation differences		(9,949)	423	(17,872)	(11,038)
Other comprehensive (loss) for the period, net of income tax		(8,734)	(10,929)	(13,207)	(36,849)
Total comprehensive income / (loss) for the period		$ (30,766)	$ 6,097	$ (12,736)	$ 8,059
Earnings / (Loss) per share					
Basic	5	($0.60)	$0.47	$0.01	$1.24
Fully diluted	5	($0.60)	$0.46	$0.01	$1.22
Weighted average shares outstanding					
Basic	5	36,444	36,365	36,433	36,326
Fully Diluted	5	36,710	36,738	36,699	36,762

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the nine month period September 30, 2016

$ thousands	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2016		$ 617,627	$ 7,526	$ 1,875	$ 27,651	$ 22,368	$ 677,046
Earnings for the period		$ -	$ -	$ -	$ -	$ 44,909	$ 44,909
Other comprehensive income / (loss)							
Transfer on redemption of investments at fair value		-	-	(27,399)	-	-	(27,399)
Net change in investments at fair value		-	-	(3,833)	-	-	(3,833)
Tax effect on items in other comprehensive income		-	-	5,421	-	-	5,421
Foreign currency translation differences		-	-	-	(11,038)	-	(11,038)
Total other comprehensive income / (loss)		-	-	(25,811)	(11,038)	-	(36,849)
Total comprehensive income / (loss) for the period		$ -	$ -	(25,811)	$ (11,038)	$ 44,909	$ 8,059
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	7	$ -	$ 3,898	$ -	$ -	$ -	$ 3,898
Dividends to shareholders	5	-	-	-	-	(44,126)	(44,126)
Options exercised in the period		266	(266)	-	-	-	-
Total transactions with Shareholders of the Company		266	3,632	-	-	(44,126)	(40,228)
Balance at September 30, 2016		$ 617,893	$ 11,158	$ (23,936)	$ 16,613	$ 23,150	$ 644,877

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the nine month period September 30, 2017

$ thousands	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings / (Deficit)	Total Equity
Balance at January 1, 2017		$ 617,893	$ 11,628	$ (27,931)	$ 23,029	$ 30,079	$ 654,698
Earnings for the period		$ -	$ -	$ -	$ -	$ 470	$ 470
Other comprehensive loss							
Transfer on redemption of investments at fair value		-	-	(8,993)	-	-	(8,993)
Transfer from fair value reserve to impairment and other charges				4,250			4,250
Net change in investments at fair value		-	-	9,744	-	-	9,744
Tax effect on items in other comprehensive income		-	-	(335)	-	-	(335)
Foreign currency translation differences		-	-	-	(17,872)	-	(17,872)
Total other comprehensive loss		-	-	4,665	(17,872)	-	(13,207)
Total comprehensive income / (loss) for the period		$ -	$ -	$ 4,665	$ (17,872)	$ 470	$ (12,736)
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	7	$ -	$ 2,566	$ -	$ -	$ -	$ 2,566
Dividends to shareholders	5	-	-	-	-	(44,280)	(44,280)
Options / RSU's exercised in the period		2,240	(2,240)	-	-	-	-
Total transactions with Shareholders of the Company		2,240	326	-	-	(44,280)	(41,714)
Balance at September 30, 2017		$ 620,133	$ 11,954	$ (23,266)	$ 5,157	$ (13,730)	$ 600,248

Alaris Royalty Corp.
Condensed consolidated statement of cash flows (unaudited)
For the nine month period ended September 30

$ thousands	Notes	Nine months ended September 30 2017	2016
Cash flows from operating activities			
Earnings from the period		$ 470	$ 44,909
Adjustments for:			
Finance costs	6	5,007	4,399
Deferred income tax expense / (recovery)	8	(9,220)	8,747
Depreciation and amortization		201	208
Bad debt expense		9,813	853
Impairment and other charges	4	42,491	7,000
Gain on partner redemptions	4	(26,575)	(20,177)
Unrealized (gain) on foreign exchange contracts		(2,590)	(4,991)
Unrealized foreign exchange loss		15,320	13,344
Non-cash stock-based compensation	7	2,566	3,898
		$ 37,483	$ 58,189
Change in:			
- trade and other receivables	4	3,208	(11,056)
- income tax receivable / payable	8	16,292	(646)
- prepayments		559	419
- accounts payable and accrued liabilities		(575)	(602)
Cash generated from operating activities		56,968	46,304
Finance costs	6	(5,007)	(4,399)
Net cash from operating activities		$ 51,962	$ 41,906
Cash flows from investing activities			
Acquisition of equipment		$ (32)	$ (43)
Acquisition of preferred units	4	(149,395)	(83,644)
Proceeds from partner redemptions	4	108,837	82,996
Promissory notes issued	4	(11,246)	(6,750)
Promissory notes repaid	4	463	313
Net cash used in investing activities		$ (51,373)	$ (7,129)
Cash flows from financing activities			
Repayment of debt		$ (116,277)	$ (35,455)
Proceeds from debt		137,564	99,657
Dividends paid	5	(44,265)	(44,122)
Deposits with CRA	8	(2,385)	(4,164)
Net cash from / (used in) financing activities		$ (25,363)	$ 15,916
Net increase / (decrease) in cash and cash equivalents		$ (24,775)	$ 50,693
Impact of foreign exchange on cash balances		7,410	(3,862)
Cash and cash equivalents, Beginning of period		29,491	20,991
Cash and cash equivalents, End of period		$ 12,126	$ 67,822
Cash taxes paid		$ 11,499	$ 9,381

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

These condensed consolidated financial statements were approved by the Board of Directors on November 6, 2017.

(b) Basis of measurement

The condensed 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 condensed 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 condensed 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. Where partners are in default, other valuation methods may be used. 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.

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 will disclose the impact with their December 31, 2017 audited financial statements.

The impact of the classification and measurement changes will include recognizing changes in fair value of financial instruments to be recognized through profit and loss, as opposed to other comprehensive income.

If the credit risk of a financial asset has not increased significantly since its initial recognition, the financial asset will attract a loss allowance equal to 12-month expected credit losses. If its credit risk has increase significantly, it will attract an allowance equal to the lifetime expected credit losses, thereby potentially increasing the amount of impairment recognized.

4. Investments

Investments at Fair Value

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

30-Sep-17 *$ thousands*	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LMS	$ 60,034	$ 656	$ 60,690	$ 34,873
Labstat	47,200	519	47,719	61,324
Agility Health	25,039	818	25,856	24,979
SCR	40,000	487	40,487	26,203
Group SM	40,500	717	41,217	-
Kimco	42,600	1,243	43,842	28,822
Planet Fitness	49,828	781	50,609	56,115
DNT	84,505	701	85,206	89,246
FED	16,255	1,718	17,973	21,829
Sandbox	34,880	935	35,814	37,213
Providence	37,371	484	37,855	39,727
Matisia	22,205	612	22,817	22,817
ccComm.	4,983	484	5,467	7,912
Accscient	25,887	548	26,435	25,282
SBI	106,819	406	107,225	106,290
Total LP and LLC Units	638,104	11,111	649,215	582,633
FED Loan Receivable	49,828	-	49,828	49,828
Total Investments at Fair Value	$ 687,932	$ 11,111	$ 699,043	$ 632,461

31-Dec-16	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LMS	$ 60,034	$ 656	$ 60,690	$ 36,215
KMH	54,800	589	55,389	26,947
Labstat	47,200	519	47,719	49,199
Agility Health	27,075	838	27,913	26,965
SCR	40,000	487	40,487	30,488
Sequel	99,005	769	99,774	109,498
Group SM	40,500	717	41,217	40,217
Kimco	46,064	1,344	47,407	31,166
Planet Fitness	53,880	845	54,725	59,062
DNT	94,290	758	95,048	99,197
FED	17,577	1,858	19,435	21,800
Sandbox	29,634	923	30,557	30,538
Providence	40,410	524	40,934	40,950
Matisia	24,010	662	24,672	24,672
Capitalized costs	-	298	298	298
Total LP and LLC Units	674,478	11,788	686,266	627,213
FED Loan Receivable	53,880	-	53,880	53,880
Total Investments at Fair Value	$ 728,358	$ 11,788	$ 740,146	$ 681,093

Investment in ccCommunications LLC ("ccComm")

The Corporation contributed US$4 million (approximately CAD$5.4 million) to ccComm ("ccComm Contribution) on January 10, 2017 in exchange for an annualized distribution of US$0.6 million (approximately CAD$0.8 million), (ccComm Distribution). 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%.

The Corporation contributed an additional US$2.2 million (approximately CAD$2.7 million) to ccComm on August 31, 2017 (ccComm Tranche #2) in exchange for an annualized distribution of US$0.3 million (approximately CAD$0.4 million). ccComm used the proceeds to acquire an additional 21 Sprint retail locations in the Northwest U.S.

Redemption of KMH Units

On June 19, 2017, 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. In Q2 2017, 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 the sale of the majority of KMH's Canadian clinics to a third party (the "Third Party Sale").

As a result of the redemption of all outstanding KMH units, the Corporation has no remaining investments at fair value as of September 30, 2017 relating to KMH. The Corporation expects to receive the $20.7 million outstanding secured note ("KMH Secured Note") in three different tranches (the first two tranches totaling $12.4 million within the next nine 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 of $8.3 million 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, $0.2 million was accreted during the nine months ended September 30, 2017. The loss was recorded as an impairment of preferred units.

Return of US$2 million of Redeemable Units from DNT

On May 26, 2017, as per the terms of the partnership agreement, DNT returned US$2 million (CAD$2.7 million) as calculated based on their excess cash flow sweep. The return of $2 million of redeemable shares results in the reduction of investments at fair value to US$68 million (US$40 million permanent units in addition to US$28 million of redeemable units).

Investment in Accscient LLC ("Accscient")

The Corporation contributed US$20.0 million (CAD$26.4 million) (the "Accscient Contribution") into Accscient LLC on June 20, 2017 in exchange for an annualized distribution of US$3.0 million (CAD$3.9 million) (the "Accscient Distribution"). 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. Accscient provides IT Staffing, Consulting, and

Outsourcing services and specializes in Digital Infrastructure Management, Enterprise Resource Planning, Business Intelligence and Database Administration.

Investment in Sales Benchmark Index LLC (“SBI”)

On August 31, 2017, the Corporation contributed US$85.0 million (CAD$106 million) (the “SBI Contribution”) into SBI in exchange for an annualized distribution of US$11.1 million (CAD$13.8 million) (the “SBI Distribution”) on August 31, 2017. The SBI Distribution will be reset for the first time on January 1, 2019 based on the percentage change in gross revenue with a collar of plus or minus 8%. The SBI Contribution is made up of US$75.0 million of permanent units (the “SBI Permanent Units”) as well as US$10.0 million of redeemable units (the “SBI 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 SBI Contribution at SBI’s discretion. After the third anniversary the Redeemable Units will have the same repurchase metrics as the Permanent Units. SBI is a management consulting firm specializing in sales and marketing that is dedicated to helping companies reach their sales objectives. SBI conducts in-depth market research and partners with business leaders to develop strategies that enhance performance and drive results. Through evidence-based methods, SBI creates actionable procedures that, once embraced and adopted, result in lasting success.

Redemption of Sequel Youth and Family Services, LLC (“Sequel”) Units

On September 1, 2017, Sequel redeemed all units (the “Alaris Units”) for total proceeds of US$95.9 million (approximately CAD$121 million) (the “Sequel Redemption”). The Corporation received US$91.8 million (approximately CAD$114.8 million) at close, the remainder of the proceeds were received subsequent to September 30, 2017. The Corporation recognized a US$21.6 million (approximately CAD$26.6 million) gain through earnings as proceeds on redemption (US$95.9 million) exceeded total capital invested (US$74.1 million).

S.M. Group International LP (“Group SM”)

During the three months ended September 30, 2017, Group SM received the final judgment related to an international arbitration process and the amount awarded was substantially less than anticipated. Therefore Group SM will not be in a position to repay the $9.8 million in unpaid distributions which were included in trade and other receivables at June 30, 2017. The Corporation recorded a $9.8 million bad debt expense for the accrued distributions and there remains $2.3 million of accrued interest on promissory notes which is expected to be received within the next twelve months. Subsequent to September 30, 2017, the Corporation received $1.5 million of accrued interest. The fair value of the preferred units were reduced in the period as in the absence of regular monthly distributions, the methodology for measuring the fair value changes from a discounted cash flow model to a liquidation model. Based on the conclusions of the liquidation value calculation, the preferred units were reduced to nil in the period as they are subordinate to the secured and unsecured debt on Group SM’s balance sheet. The permanent impairment of $41.0 million of the Group SM units was recorded through the statement of profit or loss.

As of September 30, 2017 the Corporation has $27 million of promissory notes ($10 million first priority secured and $17 million of unsecured) recorded on its balance sheet. The smaller judgment also means that the majority of the short-term unsecured notes of $17 million are not expected to be collected in the next twelve months and have been moved from current assets to non-current assets. Group SM is currently undergoing a full restructuring process, subsequent to the restructuring the Corporation believes there will be sufficient enterprise value to repay in full the $27 million of secured and unsecured promissory notes. Should there be adverse developments in the restructuring process, collection of a portion up to the entire $17 million of unsecured notes could be impacted.

Sandbox Acquisitions, LLC (“Sandbox”) Additional Contribution

On September 20, 2017, the Corporation contributed an additional US$6.0 million (CAD$7.5 million) (the “Sandbox Tranche #2) into Sandbox LLC in exchange for an annualized distribution of US$0.9 million (CAD$1.1 million) (the “Sandbox Tranche #2 Distribution”). The Sandbox Additional Contribution was used to fund an acquisition.4.

Royalties and Distributions:

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

Royalties and distributions:	Three months ended September 30		Nine months ended September 30	
$ thousands	2017	2016	2017	2016
Sequel	$ 4,007	$ 3,991	$ 12,174	$ 11,852
DNT	3,390	3,423	10,782	10,416
FED	2,648	2,693	8,291	7,492
Planet Fitness	2,049	2,029	6,410	6,173
Labstat	2,205	1,725	5,955	4,475
Providence	1,411	1,467	4,414	2,918
LMS	1,178	1,202	3,565	3,465
Sandbox	1,218	1,074	3,418	2,407
Agility Health	959	1,003	3,000	3,053
Matisia	847	-	2,648	-
SBI	1,132	-	1,132	-
Accscient	951	-	973	-
End of the Roll	293	297	944	926
ccComm	220	-	593	-
Group SM	150	1,594	500	4,782
SCR	300	-	300	3,008
Solowave	-	1,720	-	5,160
Kimco	-	-	-	2,816
MAHC	-	649	-	1,975
LifeMark Health	-	-	-	730
Total Distributions	$ 22,959	$ 22,867	$ 65,101	$ 71,648
Other Income				
Interest	816	427	2,333	1,126
Total Income	$ 23,775	$ 23,294	$ 67,434	$ 72,774

Trade receivables are due mostly from four 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	30-Sep-17	31-Dec-16
$ thousands		
Group SM (1)	$ 2,301	$ 11,218
Agility (2)	1,997	2,382
Labstat (3)	3,239	2,468
Sequel (4)	5,128	-
Other Receivables	889	694
Balance at September 30, 2017	$ 13,554	$ 16,762

(1) Group SM includes unpaid interest on the $17 million unsecured promissory notes from January 2015 the full amount of which is expected to be collected in the next twelve months. Group SM is current on interest payments related to the $10 million of secured promissory notes. Subsequent to September 30, 2017, the Corporation collected $1.5 million of interest receivable on the unsecured promissory notes.

(2) Agility represents US$1.6 million (2016 – US$1.7 million) in unpaid distributions which were accrued from March to September 2016 and August to September 2017, as they continue to undergo a strategic process. The Corporation collected an incremental US$0.7 million, in addition to US$1.8 million of current distributions during the nine months ending September 30, 2017. Amounts are expected to be collected in the next twelve months.

(3) Labstat includes the cash flow sweep for 2017 distributions. The Corporation expects the collection of all receivables within the next 12 months.

(4) The proceeds from the Sequel Redemption, were received in two tranches, US$91.8 million was received September 1, 2017, the remaining amount of US$4.2 million was recorded in accounts receivable as of September 30, 2017. The full US$4.2 million outstanding was received subsequent to September 30, 2017.

Should there be an adverse event in Labstat, or Agility'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 September 30, 2017, the following is a summary of the outstanding promissory notes.

Promissory Notes and Other Receivables	30-Sep-17	31-Dec-16
Current	*$ thousands*	
KMH Secured Loan (1)	$ 12,400	$-
Group SM (3)	10,000	17,000
Labstat (2)	3,735	3,735
Agility (6)	1,246	-
SHS (4)	875	1,188
Total Current	$ 28,256	$ 21,922
Non-Current		
Group SM (3)	$ 17,000	$-
KMH (1)	-	3,500
KMH Secured Loan (1)	6,712	-
Kimco (5)	9,344	4,391
Total Non-current	$ 33,056	$ 7,891
Balance at September 30, 2017	$ 61,312	$ 29,814

(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 twelve 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 KMH's 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 nine month period ending September 30, 2017 the Corporation provided $10 million to Group SM as short term financing as they transitioned between senior credit facilities lenders. The funds are being used by Group SM to fund working capital in lieu of a senior revolving credit facility. The first $10 million is secured against outstanding accounts receivable and has first lien on the business and is accruing interest at average rate of 10% per annum. In addition Group SM has a $17 million unsecured demand note (interest at 8%) outstanding, subordinate to a third party loan.

(4) SHS Services Management, LP ("SHS") note is 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 in July 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 carrying value at September 30, 2017 reflects that the Corporation expects to receive these amounts over a five year period. The company recorded US$240 of accretion during the three month period ending September 30, 2017. In addition, the Corporation contributed an additional US$2 million (US$4 million year to date) during the three month period ended September 30, 2017 to provide Kimco with balance sheet flexibility to grow the business under new management. The US$4 million note is expected to be repaid in 2018 and Kimco is currently paying monthly interest of 8%.

(6) The Corporation issued a US$1 million promissory note to Agility during the three months ended September 30, 2017 due to the timing of payments and collections causing short term liquidity constraints. The note is payable on demand, bears interest at 10% per annum.

Should there be an adverse event to any of the above businesses, collection could be negatively impacted.

Intangible Assets:

The Corporation holds intangible assets in End of the Roll of $6.1 million (December 31, 2016 - $6.2 million), net of accumulated amortization of $1.2 million (December 31, 2016 - $1.1 million).

5. Share capital:

Issued Common Shares	Number of Shares	Amount ($)
	thousands	*$ thousands*
Balance at January 1, 2016	36,303	$ 617,627
Issued after employee vesting	1	-
Cashless options exercised in the period	33	-
Fair value of options exercised in the period	-	266
Balance at December 31, 2016	36,336	$ 617,893
Issued after employee / director vesting	72	1,802
Cashless options exercised in the period	36	-
Fair value of options exercised in the period	-	438
Balance at September 30, 2017	36,444	$ 620,133

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

Weighted Average Shares Outstanding	Three months ending September 30		Nine months ended September 30	
thousands	2017	2016	2017	2016
Weighted average shares outstanding, basic	36,444	36,365	36,433	36,326
Effect of outstanding options	-	56	-	120
Effect of outstanding RSUs	266	317	266	317
Weighted average shares outstanding, fully diluted	36,710	36,738	36,699	36,762

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

Dividends

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

In each of the first nine months of 2017, the Corporation declared a dividend of $0.135 per common share ($1.215 per share and $44.3 million in aggregate). In each of the nine months of 2016, the Corporation declared a dividend of $0.135 per common share ($1.215 per share and $44.1 million in aggregate).

6. Loans and borrowings:

As at September 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 September 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. At September 30, 2017, the facility was $115.1 million drawn.

At September 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 1.39:1 at September 30, 2017); minimum tangible net worth of $450.0 million (actual amount is $594.1 million at September 30, 2017); and a minimum fixed charge coverage ratio of 1:1 (actual ratio is 1.20:1 at September 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 September 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 October 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-nine month vesting period.

The Corporation has reserved 2,574,073 and issued 2,079,671 options as of September 30, 2017. The options outstanding at September 30, 2017, have an exercise price in the range of $22.33 to $33.87, a weighted average exercise price of $27.07 and a weighted average contractual life of 2.67 years (2016 – 2.23 years).

For the three months ended September 30, 2017 the Corporation incurred stock-based compensation expenses of $839 (2016 - $1,026) which includes: $563 (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2016 - $690); and $276 (non-cash expense) for the amortization of the fair value of outstanding stock options (2016 - $336). For the nine months ended September 30, 2017 the Corporation incurred stock-based compensation expenses of $2,566 (2016 - $3,898) which includes: $1,704 (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2016 - $2,747); and $862 (non-cash expense) for the amortization of the fair value of outstanding stock options (2016 - $1,151).

During the three month period ending September 30, 2017 no shares, RSU's or options were granted. During the nine month period ending September 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. Subsequent to September 30, 2017, the Corporation issued 11,088 common shares from the exchange of RSU's and issued 31,966 RSU's and 519,204 stock options with an exercise price of $20.60.

8. Income taxes:

In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009. The Corporation received notices of reassessment from the Canada Revenue Agency in respect of its taxation years ended December 31, 2009 through December 31, 2016 (the "Reassessments"). Pursuant to the Reassessments, the deduction of approximately $121 million of non-capital losses and utilization of $8.4 million in investment tax credits by the Corporation was denied, resulting in reassessed taxes and interest of approximately $44.0 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 $19.3 million in deposits relating to these assessments, the total recorded as a long term deposit on the balance sheet. The carrying value of the remaining investment tax credits of $2.6 million at September 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 September 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 September 30, 2017 and December 31, 2016, KMH was valued on this basis as of December 31, 2016 and Group SM was valued on this basis at September 30, 2017.

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following items shown on the condensed consolidated statement of financial position as at September 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 nine month period ended September 30, 2017.

Fair value classification *($ thousands)*	Level 1	Level 2	Level 3	Total
30-Sep-17				
Foreign exchange contracts	$ -	$ 1,876	$ -	$ 1,876
Investments at fair value	-	-	632,461	632,461
Total at September 30, 2017	$ -	$ 1,876	$ 632,461	$ 634,337
31-Dec-16	Level 1	Level 2	Level 3	Total
Foreign exchange contracts	$ -	$ (712)	$ -	$ (712)
Investments at fair value	-	-	681,093	681,093
Total at December 31, 2016	$ -	$ (712)	$ 681,093	$ 680,381

The Corporation purchases forward exchange rate contracts to match expected after tax distributions in US dollars on a rolling 12 month basis and also for between 25% to 60% of the expected distributions on a rolling 12 to 24 month basis. The notional value of outstanding foreign exchange contracts is US$40.0 million (US$49.1 million as of December 31, 2016).

10. Commitments:

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

Commitments	30-Sep-17
2017	$ 103
2018	421
2019	432
2020	216
Total Commitments	$ 1,171