Unaudited Condensed Consolidated Interim
Financial Statements of

ALARIS ROYALTY CORP.

For the three and six months ended June 30, 2018

Alaris Royalty Corp.

Condensed consolidated statement of financial position (unaudited)

$ thousands	Note	30-Jun 2018	31-Dec 2017
Assets			
Cash and cash equivalents		$ 27,621	$ 35,475
Prepayments		2,051	2,407
Foreign exchange contracts		-	1,430
Trade and other receivables	4	1,054	8,642
Investment tax credit receivable		2,226	2,957
Assets acquired held for sale	9	37,000	-
Promissory notes receivable	4	-	15,403
Current Assets		$ 69,953	$ 66,315
Promissory notes and other receivables	4	16,826	32,017
Deposits		19,252	19,252
Equipment		416	503
Intangible assets	4	-	6,116
Investments at fair value	4	637,050	669,216
Deferred income taxes	8	3,806	5,449
Non-current assets		677,350	732,552
Total Assets		**$ 747,303**	**$ 798,867**
Liabilities			
Accounts payable and accrued liabilities		$ 2,187	$ 1,707
Dividends payable		4,921	4,921
Foreign exchange contracts		456	-
Liabilties acquired held for sale	9	27,000	-
Income tax payable	8	5,494	588
Current Liabilities		40,059	7,217
Deferred income taxes	8	10,628	13,641
Loans and borrowings	6	82,096	173,464
Non-current liabilities		92,724	187,105
Total Liabilities		**$ 132,783**	**$ 194,322**
Equity			
Share capital	5	$ 621,082	$ 620,842
Equity reserve	7	13,353	12,058
Fair value reserve	3	-	(17,036)
Translation reserve		20,039	5,767
Retained earnings / (deficit)		(39,955)	(17,087)
Total Equity		**$ 614,519**	**$ 604,545**
Total Liabilities and Equity		**$ 747,303**	**$ 798,867**
Commitments	11		

Alaris Royalty Corp.

Condensed consolidated statement of comprehensive income / loss (unaudited)

		Three months ended June 30		Six Months ended June 30	
$ thousands except per share amounts	Note	2018	2017	2018	2017
Revenues					
Royalties and distributions	4	$ 27,756	$ 21,752	$ 51,008	$ 42,143
Interest and other	4	687	1,032	1,075	1,522
Total Revenue		**28,442**	**22,784**	**52,083**	**43,664**
Other income					
Gain on partner redemptions	4	6,402	-	8,144	-
Increase in investments at fair value	4	502	3,975	4,033	3,975
Realized gain / (loss) on foreign exchange contracts		13	(130)	152	(480)
Total other income		6,917	3,845	12,329	3,495
Salaries and benefits		1,348	1,440	2,030	2,076
Corporate and office		1,032	1,048	1,984	1,769
Legal and accounting fees		668	340	1,781	878
Non-cash stock-based compensation	7	767	885	1,535	1,727
Bad debt expense & reserve	4	-	-	25,974	-
Impairment and other charges		-	1,474	-	1,474
Depreciation and amortization		65	67	130	134
Total Operating Expenses		3,880	5,253	33,433	8,057
Earnings before the undernoted		**31,481**	**21,375**	**30,979**	**39,103**
Finance costs	6	1,790	1,070	4,535	3,084
Unrealized (gain) / loss on foreign exchange contracts		695	(1,011)	1,914	(1,905)
Unrealized foreign exchange (gain) / loss		(3,553)	4,349	(8,031)	6,477
Earnings before taxes		**32,549**	**16,967**	**32,562**	**31,447**
Current income tax expense		5,012	2,187	10,107	4,016
Deferred income tax expense / (recovery)		674	671	(1,262)	1,473
Total income tax expense		5,686	2,858	8,845	5,489
Earnings		**$ 26,863**	**$ 14,109**	**$ 23,717**	**$ 25,958**
Other comprehensive income					
Foreign currency translation differences		7,005	(5,488)	14,272	(7,923)
Other comprehensive income / (loss)		7,005	(5,488)	14,272	(7,923)
Total comprehensive income		**$ 33,868**	**$ 8,621**	**$ 37,989**	**$ 18,035**
Earnings per share					
Basic		$0.74	$0.39	$0.65	$0.71
Fully diluted		$0.73	$0.38	$0.65	$0.71
Weighted average shares outstanding					
Basic	5	36,486	36,483	36,483	36,467
Fully Diluted	5	36,767	36,785	36,765	36,769

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the three and six months ended June 30, 2017

$ thousands	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2017		$ 617,893	$ 11,628	$ (27,931)	$ 23,029	$ 30,079	$ 654,698
Earnings for the period		$ -	$ -	$ -	$ -	$ 25,958	$ 25,958
Other comprehensive income / (loss)							
Foreign currency translation differences		-	-	-	(7,923)	-	(7,923)
Total other comprehensive income / (loss)		-	-	-	(7,923)	-	(7,923)
Total comprehensive income / (loss) for the period		$ -	$ -	$ -	$ (7,923)	$ 25,958	$ 18,035
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	7	$ -	$ 1,727	$ -	$ -	$ -	$ 1,727
Dividends to shareholders	5	-	-	-	-	(29,520)	(29,520)
Options exercised in the period		2,240	(2,240)	-	-	-	-
Total transactions with Shareholders of the Company		2,240	(514)	-	-	(29,520)	(27,793)
Balance at June 30, 2017		**$ 620,133**	**$ 11,115**	**$ (27,931)**	**$ 15,106**	**$ 26,517**	**$ 644,940**

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the three and six months ended June 30, 2018

$ thousands	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings / (Deficit)	Total Equity
Balance at January 1, 2018		$ 620,842	$ 12,058	$ (17,036)	$ 5,767	$ (17,087)	$ 604,545
Earnings for the period		$ -	$ -	$ -	$ -	$ 23,717	$ 23,717
Other comprehensive loss							
Foreign currency translation differences		-	-	-	14,272	-	14,272
Total other comprehensive income / (loss)		-	-	-	14,272	-	14,272
Total comprehensive income / (loss) for the period		$ -	$ -	$ -	$ 14,272	$ 23,717	$ 37,989
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	7	$ -	$ 1,535	$ -	$ -	$ -	$ 1,535
Dividends to shareholders	5	-	-	-	-	(29,549)	(29,549)
Fair value reserve transferred to opening retained earnings	3	-	-	17,036	-	(17,036)	-
RSU's vested in the period		$ 240	(240)	-	-	-	-
Total transactions with Shareholders of the Company		240	1,296	17,036	-	(46,585)	(28,015)
Balance at June 30, 2018		**$ 621,082**	**$ 13,353**	**$ -**	**$ 20,039**	**$ (39,955)**	**$ 614,519**

Alaris Royalty Corp.

Condensed consolidated statement of cash flows (unaudited)

$ thousands	Notes	Six Months ended June 30 2018	2017
Cash flows from operating activities			
Earnings from the period		$ 23,717	$ 25,958
Adjustments for:			
Finance costs	6	4,535	3,084
Deferred income tax expense / (recovery)		(1,262)	1,473
Depreciation and amortization		130	134
Bad debt expense & reserve	4	25,974	-
Impairment and other charges	4	-	1,474
Gain on partner redemptions	4	(8,144)	-
Increase in investments at fair value	4	(4,033)	(3,975)
Unrealized (gain) / loss on foreign exchange contracts		1,914	(1,905)
Unrealized foreign exchange (gain) / loss		(8,031)	6,477
Non-cash stock-based compensation	7	1,535	1,727
		$ 36,334	$ 34,446
Change in:			
- trade and other receivables	4	7,044	27
- income tax receivable / payable		4,906	(1,699)
- prepayments		(183)	620
- accounts payable and accrued liabilities		480	(327)
Cash generated from operating activities		48,582	33,067
Finance costs		(4,535)	(3,084)
Net cash from operating activities		$ 44,047	$ 29,983
Cash flows from investing activities			
Acquisition of preferred units	4	$ (56,325)	$ (31,832)
Proceeds from partner redemptions	4	133,621	12,499
Promissory notes issued	4	(8,352)	(11,960)
Promissory notes repaid	4	6,055	-
Acquisition of equipment		-	(32)
Net cash from / (used in) investing activities		$ 74,998	(31,326)
Cash flows from financing activities			
Repayment of debt	6	$ (141,863)	$ -
Proceeds from debt	6	44,137	17,190
Dividends paid	5	(29,550)	(29,505)
Deposits with CRA	8	-	(68)
Net cash used in financing activities		$ (127,275)	(12,384)
Net decrease in cash and cash equivalents		$ (8,230)	$ (13,726)
Impact of foreign exchange on cash balances		376	(582)
Cash and cash equivalents, Beginning of period		35,475	29,491
Cash and cash equivalents, End of period		$ 27,621	$ 15,182
Cash taxes paid		$ 5,700	$ 5,118

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, 2018 comprise Alaris Royalty Corp. and its subsidiaries (together referred to as the "Corporation"). The Corporation's American operations are conducted through two Delaware Corporations, Alaris USA Inc.("Alaris USA") and Salaris USA Royalty Inc. ("Salaris USA"). The Corporation's operations consist primarily of investments in private operating entities, typically in the form of preferred limited partnership interests, preferred interest in limited liability corporations in the United States, loans receivable, or long-term license and royalty arrangements. The Corporation also has a wholly-owned subsidiary in the Netherlands, Alaris Cooperatief U.A. ("Alaris Cooperatief").

2. Statement of compliance:

(a) Statement of compliance

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

These condensed consolidated interim financial statements were approved by the Board of Directors on July 23, 2018.

(b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Investments at fair value are measured at fair value with changes in fair value recorded in earnings (see note 3).
- Derivative financial instruments are measured at fair value.

(c) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars which is the Corporation's functional currency. Alaris USA Inc. and Salaris USA have the United States dollar, while Alaris Cooperatief has the Canadian dollar as the functional currencies.

(d) Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Information about assumptions, judgments and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next twelve months are as follows:

Key judgments

A key judgment relates to the consideration of control, joint control and significant influence in each of our investments. The Corporation has agreements with various partners and these agreements include not only clauses as to distributions but also various protective rights. The Corporation has assessed these rights under IFRS 10 and 11 and determined that consolidation is not appropriate. In a number of our investments we have protective rights, which provides the

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

Key estimates used in discounted cash flow projections

Key assumptions used in the calculation of the fair value of available for sale financial assets are discount rates, terminal value growth rates and annual performance metric growth rates. Where partners are in default, other valuation methods may be used.

Collectability of amounts receivable

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

Income taxes

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

3. Significant accounting policies:

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

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

IFRS 9: Financial Instruments

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

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

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

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

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

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

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

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

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

IFRS 15: Revenue from Contracts with Customers

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

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

Revenue Recognition

The Corporation recognizes revenue on its financial instruments in accordance with IFRS 9. Revenue is recognized when and only when, the Corporation becomes party to the monthly distributions related to the instruments.

Financial Instruments

Recognition and Initial Measurement

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

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

Classification and Subsequent Measurement

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

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

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

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

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

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

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

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

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

Business Model Assessment

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

Solely Payments of Principal and Interest Assessment

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

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

Financial Liabilities

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

Derivatives

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

Impairment

The Corporation recognizes loss allowances for expected credit losses (“ECLs”) on its financial assets measured at amortized cost. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument whereas 12 month ECLs are the ECLs that result from possible default over the next 12 months. The maximum period considered when estimating ECLs is the maximum contractual period over which the Corporation is exposed to credit risk. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Corporation expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

4. Investments at Fair Value

Differences in the acquisition cost of Agility, Kimco, Planet Fitness, DNT, FED, Sandbox, Providence, Unify, ccComm., Accscient and SBI at June 30, 2018 and December 31, 2017 are partially attributable to foreign currency translation.

30-Jun-18 *$ thousands*	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
Lower Mainland Steel Limited Partnership (“LMS”)	$ 60,034	$ 856	$ 60,890	$ 39,015
SCR Mining and Tunneling, LP (“SCR”)	40,000	487	40,487	26,203
Kimco Holdings, LLC (“Kimco”)	45,140	1,515	46,655	27,175
PF Growth Partners, LLC (“Planet Fitness”)	27,146	828	27,974	31,044
DNT, LLC (“DNT”)	89,308	743	90,051	94,305
Federal Resources Supply Company (“FED”)	87,844	1,821	89,665	97,051
Sandbox Acquisitions, LLC (“Sandbox”)	46,139	990	47,129	50,620
Providence Industries, LLC ("Providence")	39,600	513	40,113	40,776
Unify, LLC ("Unify")	23,760	433	24,193	25,777
ccCommunications LLC (“ccComm”)	21,387	530	21,917	21,576
Accscient, LLC ("Accscient")	31,347	507	31,854	30,839
Sales Benchmark Index LLC (“SBI”)	112,335	465	112,800	112,680
Heritage Restoraction, LLC (“Heritage”)	18,510	238	18,748	20,049
Fleet Advantage, LLC ("Fleet")	19,801	131	19,932	19,934
Capitalized costs	-	5	5	5
Total Investments at Fair Value	**$ 662,352**	**$ 10,063**	**$ 672,414**	**$ 637,050**

31-Dec-17	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
Lower Mainland Steel Limited Partnership (“LMS”)	$ 60,034	$ 656	$ 60,690	$ 35,917
Labstat International, LP (“Labstat”)	47,200	519	47,719	61,324
Agility Health, LLC (“Agility”)	25,232	781	26,013	26,133
SCR Mining and Tunneling, LP (“SCR”)	40,000	487	40,487	26,203
Kimco Holdings, LLC (“Kimco”)	42,928	1,252	44,180	29,045
PF Growth Partners, LLC (“Planet Fitness”)	50,212	787	50,999	57,427
DNT, LLC (“DNT”)	85,177	707	85,883	89,933
Federal Resources Supply Company (“FED”):	33,327	1,731	35,058	40,576
Sandbox Acquisitions, LLC (“Sandbox”)	43,878	941	44,819	46,517
Providence Industries, LLC ("Providence")	37,659	488	38,147	40,661
Unify, LLC ("Unify")	22,595	397	22,993	24,499
ccCommunications LLC (“ccComm”)	7,786	456	8,242	7,941
Accscient, LLC ("Accscient")	25,887	548	26,435	25,514
Sales Benchmark Index LLC (“SBI”)	106,829	442	107,271	107,158
Capitalized costs	-	155	155	155
Total LP and LLC Units	628,743	10,349	639,092	619,004
FED Loan Receivable	50,212	-	50,212	50,212
Total Investments at Fair Value	**$ 678,955**	**$ 10,349**	**$ 689,304**	**$ 669,216**

Transactions closed in 2018

Q1 2018

Investment in Heritage Restoration, LLC ("Heritage")

On January 23, 2018, the Corporation entered into subscription and operating agreements with Heritage Restoration, Holdings, LLC ("Heritage"), pursuant to which the Corporation invested US$15.0 million ("Heritage Contribution") in exchange for preferred units in Heritage (the "Heritage Units"). The Corporation is entitled to an annual distribution of US$2.3 million ("Heritage Distribution") for the first full year following the transaction, which equates to an initial yield of 15%. US$3.0 million of the Heritage Units are redeemable at par at any time. The performance metric dictating the annual percentage change in the Heritage Distribution is gross margin, subject to a 6% collar and will reset for the first time on January 1, 2019. The Heritage Contribution was used to fund the management buyout of the existing shareholder.

Redemption of Agility Health, LLC Units

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

The Corporation recorded a gain on redemption of $1.7 million during the six month period ending June 30, 2018 which represents the excess of total consideration received (US$22.2 million) above the carrying value of US$20.8 million converted to Canadian dollars. The cumulative fair value adjustments previously recorded through other comprehensive income were moved to retained earnings on January 1, 2018 to reflect the changes in accounting standards (as described in note 3). As a result of the gain on redemption, the Corporation paid US$2.6 million in taxes during the six months ended June 30, 2018.

Kimco Holdings, LLC Additional Contribution

On March 30, 2018, the Corporation loaned US$6.0 million to Kimco to replace existing subordinated debt. The Corporation is entitled to and is collecting, an annual yield of 12% (US$0.7 million). As a result of the refinancing in April 2018, Kimco commenced fixed annual distributions to Alaris of US$1.2 million (paid monthly) and a quarterly cash flow sweep up to the maximum contracted distributions subject to certain bank covenants being met.

Q2 2018

PF Growth Partners, LLC Partial Redemption

On May 11, 2018, the Corporation received a partial redemption of US$25.0 million from Planet Fitness in exchange for preferred units which had an associated US$3.3 million of annual distributions. The gain on the partial redemption was recorded as a fair value increase as at and for the three months ended March 31, 2018 of $3.5 million CAD. Subsequent to the transaction, the Corporation is entitled to US$3.5 million of annualized distributions on a remaining cost basis of US$20.6 million and fair value of US$23.5 million.

ccCommunications, LLC Additional Contribution

On May 31, 2018, the Corporation contributed US$10.0 million to ccComm. in exchange for annualized distributions of US$1.4 million. The proceeds were used to fund an acquisition in their related industry. The Corporation has invested a total of US$16.2 million funded over three tranches in exchange for an annualized distribution of US$2.3 million.

Accscient, LLC Additional Contribution

On June 15, 2018, the Corporation contributed an additional US$3.0 million to Accscient in exchange for an additional annualized distributions of US$0.4 million. The proceeds were received to fund an acquisition in their related industry. The Corporation has invested a total of US$23.0 million funded over two tranches in exchange for an annualized distribution of US$3.4 million.

Fleet Advantage, LLC ("Fleet") Initial Investment

On June 15, 2018, the Corporation contributed US$15.0 million into Fleet in exchange for a first year annualized distribution of US$2.1 million. Fleet has the option to pay a portion of the Fleet distribution, subject to a maximum yield of 2% (US$0.3 million in the first year) of the total yield (14% in the initial year) in any given year as payment-in-kind ("PIK") provided that any amounts subject to the PIK must be paid every three years. US$7.5 million of the Fleet units are redeemable at par at any time. The Fleet distribution will be adjusted annually (commencing January 1, 2020) based on the change in net revenues, subject to a 6% collar. The Fleet contribution was used to fund continued growth and provide partial liquidity to existing shareholders.

Labstat Redemption

On June 25, 2018, the Corporation received $61.3 million as a result of the Labstat redemption, which represents a premium of $13.6 million over Alaris' original cost of $47.7 million. The fair value of the units were previously increased to reflect the maximum repurchase price, therefore no gain was recorded at the time of disposition.

Concurrent with the redemption of the preferred units, the Corporation also received $4.3 million for previously forgone distributions. The forgone distributions were a result of the Labstat annual distributions being determined by a cash flow sweep from 2013 to 2017. The amounts received were recognized as revenue during the three month period ended June 30, 2018. The Corporation had previously not assigned any value on its balance sheet to the collection of the $4.3 million of forgone distributions because the amount and timing were dependent on the redemption of the preferred units.

As part of the redemption the Corporation received the repayment of the $3.7 million promissory note outstanding and $0.3 million of accrued interest. Prior to the redemption the Corporation also received the 2017 cash sweep of $4.2 million.

End of the Roll Redemption

On June 29, 2018, the Corporation received $12.6 million as a result of the End of the Roll repurchasing the outstanding intangible asset. The End of the Roll intangible asset had a carrying value of $6.0 million and an original cost of $7.2 million. The Corporation recognized a $6.5 million gain during the three month period ended June 30, 2018.

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	
$ thousands	2018	2017	2018	2017
Labstat	$ 6,236	$ 2,250	$ 8,340	$ 3,750
DNT	3,696	3,709	7,322	7,392
SBI	3,566	-	7,058	-
FED	3,435	2,847	6,829	5,643
Planet Fitness	1,858	2,217	4,028	4,361
Sandbox	1,732	1,109	3,545	2,200
Providence	1,525	1,514	3,020	3,003
LMS	1,395	1,181	2,575	2,387
Accscient	993	22	1,941	22
Unify	890	908	1,761	1,802
Heritage	724	-	1,249	-
ccComm	451	202	758	373
SCR	450	-	750	-
End of the Roll	302	297	692	652
Kimco	387	-	387	-
Fleet	115	-	115	-
Agility Health	-	1,029	637	2,041
Sequel	-	4,118	-	8,168
Group SM	-	350	-	350
Total Royalties and Distributions	$ 27,756	$ 21,752	$ 51,008	$ 42,143
Other Income				
Interest	687	1,032	1,075	1,522
Total Revenue	**$ 28,442**	**$ 22,784**	**$ 52,083**	**$ 43,664**

As of June 30, 2018, trade receivables are not concentrated with one partner. As of December 31, 2017 trade receivables were due mostly from two partner companies with two of them having an outstanding balance over 90 days.

Trade & Other Receivables	30-Jun-18	31-Dec-17
$ thousands		
Labstat (2)	$ -	$ 4,239
Agility (1)	-	3,053
Other Receivables	1,054	1,350
Balance at June 30, 2018	**$ 1,054**	**$ 8,642**

(1) The Agility balance as of December 31, 2017 related to unpaid distributions and was collected as part of the Agility redemption in February 2018.

(2) Labstat includes the cash flow sweep for 2017 distributions. The Corporation collected the full $4.2 million during the three months ended June 30, 2018.

Promissory Notes and Other Receivables:

As part of being a long-term partner with the companies the Corporation holds preferred interests in, from time to time the Corporation has offered alternative financing solutions to assist with short-term needs of the individual businesses. At June 30, 2018, the following is a summary of the outstanding promissory notes.

4. Investments (continued):

Promissory Notes and Other Receivables *($ thousands)*	**Carrying Value**		**Face Value**	
Current	*30-Jun-18*	*31-Dec-17*	*30-Jun-18*	*31-Dec-17*
Group SM - Secured Promissory Note (3)	$ -	$ 10,000	$ -	$ 10,000
Labstat (2)	-	3,735	-	3,735
Agility	-	1,255	-	1,255
SHS	-	413	-	875
Total Current	$ -	$ 15,403	$ -	$ 15,865
Non-Current				
Kimco (5)	$ 12,448	$ 4,305	$ 12,933	$ 5,021
Kimco - LT accounts receivable (4)	2,398	2,281	5,586	5,586
Agility - LT accounts receivable (6)	1,980	-	1,980	-
Group SM - Unsecured Promissory Note (3)	-	11,600	17,000	17,000
Phoenix Secured Loan - US (1)	-	10,047	11,837	12,400
Phoenix Secured Loan - CDN (1)	-	3,784	8,500	8,033
Total Non-current	$ 16,826	$ 32,017	$ 57,836	$ 48,040
Balance	**$ 16,826**	**$ 47,420**	**$ 57,836**	**$ 63,906**

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

(1) The Phoenix US assets (formerly KMH) were sold to a third party in the six months ended June 30, 2018. Consideration included US$1.5 million of secured debt with additional proceeds of up to US$4.0 million to be received if certain revenue targets are achieved over a period of three years. Due to the uncertainty over timing of proceeds, the Corporation recorded a full reserve of the carrying amount of the Phoenix US loan in Q1 2018. The Corporation also recorded a reserve of $3.8 million against the Phoenix Canada Loan in the first quarter of 2018 as the timing and collection of any amount related to that loan is uncertain. The Corporation continues to pursue maximum value however due to the uncertainty no value has been assigned to either asset as of June 30, 2018.

(2) Labstat note was collected in full during the three months ending June 30, 2018.

(3) In 2017, the Corporation provided $10.0 million to Group SM, which is secured against outstanding accounts receivable and has a first lien on the business. The secured note bears interest at 10% per annum and is being paid monthly. The collection of the secured note is expected at the completion of the ongoing restructuring process. Please refer to note 9 on the accounting treatment of the Group SM secured note as of June 30, 2018.

In addition, the Corporation has a $17.0 million unsecured demand note (interest at 8%) with Group SM, subordinate to a third party loan. During Q1 2018, the results of the ongoing restructuring process and Group SM's increasing working capital deficit reduced the Corporation's expected proceeds. As a result the timing and increasing uncertainty surrounding the collection of future cash flow, the Corporation provided a reserve against the remaining carrying value of the promissory notes of $11.6 million. The Corporation continues to pursue maximum value through the ongoing restructuring process. Refer to note 9 for additional disclosure.

(4) In 2016, accrued distributions totaling US$4.5 million were reclassified to long-term, upon reclassification, the amounts were discounted and a reserve of US$2.6 million recorded to reflect the uncertainty of timing and the long-term collection horizon. The carrying value at June 30, 2018 reflects that the notional amount will be received over a five year period and is discounted using a 8% discount rate.

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

(6) The Agility receivable as of June 30, 2018 relates to the US$1.5 million that was placed in escrow upon closing of the Agility refinancing and is expected to be collected in late 2019.

Bad Debt Expense and Reserve:

Due to the negative outcome surrounding the KMH strategic process and ongoing liquidity issues at Group SM and the timing and uncertainty surrounding the timing and collection of any amount of their respective promissory notes and accounts receivable, the Corporation recorded a $25.4 million reserve in the first quarter of 2018. There were no additional bad debts or reserves recorded during the three months ended June 30, 2018 (please see above in note 4 for additional details).

Bad Debt Expense and Reserve *($ thousands)*	Three Months Ended		Six Months Ended	
Write Offs	*30-Jun-18*	*30-Jun-17*	*30-Jun-18*	*30-Jun-17*
Group SM - accounts receivable	$ -	$ -	$ 544	$ -
Total Write offs	$ -	$ -	$ 544	$ -
Reserve				
Group SM - Unsecured Promissory Note	$ -	$ -	$ 11,600	$ -
Phoenix Secured Loan - US	-	-	10,046	-
Phoenix Secured Loan - CDN	-	-	3,784	-
Total Reserve	$ -	$ -	$ 25,430	$ -
Total Bad Debt Expense	**$ -**	**$ -**	**$ 25,974**	**$ -**

5. Share capital:

Issued Common Shares	Number of Shares	Amount ($)
	thousands	*$ thousands*
Balance at December 31, 2016	36,336	$ 617,893
Issued after employee / director vesting	109	2,512
Cashless options exercised in the period	36	-
Fair value of options exercised in the period	-	438
Balance at December 31, 2017	36,481	$ 620,842
RSUs vested	15	240
Balance at June 30, 2018	**36,496**	**$ 621,082**

The Corporation has authorized, issued and outstanding, 36,496,247 voting common shares as at June 30, 2018 (December 31, 2017 – 36,481,247).

Weighted Average Shares Outstanding	Three months ending June 30		Six Months ended June 30	
thousands	**2018**	**2017**	**2018**	**2017**
Weighted average shares outstanding, basic	36,486	36,483	36,483	36,467
Effect of outstanding options	-	-	-	-
Effect of outstanding RSUs	281	302	281	302
Weighted average shares outstanding, fully diluted	36,767	36,785	36,765	36,769

2,242,364 options were excluded from the calculation as they were anti-dilutive at June 30, 2018.

Dividends

In each of the first six months of 2018 and 2017, the Corporation declared a dividend of $0.135 per common share, $0.81 per share and $29.6 million in aggregate (2017 - $0.81 per share and $29.5 million in aggregate).

6. Loans and borrowings:

As at June 30, 2018 the Corporation had a $300 million credit facility with a syndicate of Canadian chartered banks, the facility has a four year term with a maturity date in September 2021. The interest rate is based on a combination of the CAD Prime Rate ("Prime"), Bankers' Acceptances ("BA"), US Base Rate ("USBR") and LIBOR. The Corporation realized a blended interest rate of 5.5% for the three and six months ended June 30, 2018. During the period, another bank joined the lending syndicate and the facility was increased from $280 million to $300 million and at the same time the accordion feature was reduced from $70 million to $50 million. At June 30, 2018, the facility was $82.1 million drawn, all in USD denominated debt (December 31, 2017 - $173.5 million of which $112.7 million was denominated in USD).

At June 30, 2018, the Corporation met all of its covenants as required by the facility. Those covenants include a maximum funded debt to contracted EBITDA of 2.5:1 (actual ratio is 1.03:1 at June 30, 2018); minimum tangible net worth of $450.0 million (actual amount is $614.5 million at June 30, 2018); and a minimum fixed charge coverage ratio of 1:1 (actual ratio is 1.22:1 at June 30, 2018).

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 456,201 and issued 276,651 RSUs to management and Directors as of June 30, 2018. The RSUs issued to directors (78,605) vest over a three year period. The RSUs issued to management (198,046) do not vest until the end of a three year period (119,000 in July 2018, 47,080 in July 2019, and 31,966 in October 2020) and are subject to certain performance conditions relating to operating cash flow per share. The stock-based compensation expense relating to the RSU Plan is based on the issue price at the time of grant and management's estimate of the future performance conditions and will be amortized over the thirty-six month vesting period.

The Corporation has reserved 3,102,181 and issued 2,242,364 options as of June 30, 2018. The options outstanding at June 30, 2018, have an exercise price in the range of $20.60 to $33.87, a weighted average exercise price of $25.56 (2017 – $26.47) and a weighted average contractual life of 2.5 years (2017 – 2.5 years).

For the three months ended June 30, 2018 the Corporation incurred stock-based compensation expenses of $0.8 million (2017 - $0.9 million) which includes: $0.5 million (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2017 - $0.6 million); and $0.3 million (non-cash expense) for the amortization of the fair value of outstanding stock options (2017 - $0.3 million).

For the six months ended June 30, 2018 the Corporation incurred stock-based compensation expenses of $1.5 million (2017 - $1.7 million) which includes: $1.0 million (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2017 - $1.1 million); and $0.5 million (non-cash expense) for the amortization of the fair value of outstanding stock options (2017 - $0.6 million).

8. Income taxes:

In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009. The Corporation has since received notices of reassessment from the Canada Revenue Agency in respect of its taxation year ended December 30, 2009 through December 30, 2016 (collectively the "Reassessments"). Pursuant to the Reassessments, the deduction of approximately $121 million of non-capital losses and utilization of $5.2 million in investment tax credits ("ITC's") by the Corporation was denied, resulting in reassessed taxes and interest of approximately $44.9 million. Subsequent to filing the notice of objection for the July 14, 2009 taxation year, Alaris received an additional proposal from the CRA pursuant to which the CRA is proposing to apply the general anti avoidance rule to deny the use of non-capital losses, accumulated scientific research and experimental development expenditures and investment tax credits. The proposal does not impact the Corporation's previously disclosed assessment of the total potential tax liability (including interest) or the deposits required to be paid in order to dispute the CRA's reassessments. The Corporation has received legal advice that it should be entitled to deduct the non-capital losses and as such, the Corporation remains of the opinion that all tax filings to date were filed correctly and that it will be successful in appealing such Reassessments. The Corporation intends to continue to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amounts as a deposit to the Canada Revenue Agency. The Corporation has paid a total of $19.3 million in deposits to the CRA relating to the Reassessments to date. It is possible that the Corporation may be reassessed with respect to the deduction of its tax pools in respect of its tax filings in respect of the 2017 and 2018 taxation years, on the same basis. The carrying values of the remaining ITC's of $2.2 million at January 1, 2018 and the ITC's claimed in 2017 of $1.6 million are at risk should the Corporation be unsuccessful in defending its position. The Corporation anticipates that legal proceedings through the CRA and the courts will take considerable time to resolve and the payment of the deposits, and any taxes, interest or penalties owing will not materially impact the Corporation's payout ratio.

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

The comparative period deferred tax balances have been reclassified to conform to the current period presentation. The Corporation previously reported a net deferred tax liability of $8.2 million. This amount has been presented in these financial statements in the comparative period as a deferred tax asset of $3.8 million and a deferred tax liability of $10.6 million.

9. Assets held for sale:

On June 15, 2018, the Corporation exercised its step in rights and assumed voting control over Group SM as a result of their failure to meet certain covenants in our operating and promissory note agreements.

The Corporation exercised its step in rights primarily to control the timing of the strategic process of recapitalizing Group SM and maximize the proceeds to which Alaris is entitled. Immediately prior to the assumption of control, Alaris' carrying value of its investment and promissory notes with Group SM was limited to $10.0 million of secured promissory notes. All other financial interests in Group SM had previously been impaired or written off.

The assumption of voting control of Group SM required Alaris to account for the transaction as a business combination.

Voting control of Group SM was obtained with the sole intent of having the investment sold in the near term. A strategic process is currently underway and the Corporation has assessed that is likely the investment will be disposed of within the next 12 months. Accordingly, the acquired business meets the definition of assets held for sale and has been presented as assets and liabilities held for sale in these interim financial statements.

In such a situation when a group is acquired exclusively with a view to subsequently dispose, the assets or disposal group are initially measured at the lower of its carrying amount and fair value less costs to sell. As of the date of these interim financial statements, the fair values of the assets and liabilities acquired have not yet been finalized. However, evidence obtained from interested parties in the strategic process that is underway supports that the Corporation is expecting to recover its $10.0 million secured promissory note. Accordingly the estimate of the fair value of the net assets acquired is $10.0 million. The $10.0 million promissory note receiveable is not reflected in these consolidated financial statements as it has been eliminated on consolidation of Group SM with the $10.0 million promissory note payable held by Group SM.

Given the Corporation does not expect to recover its investment in preferred units, unsecured promissory notes or other amounts receivable from Group SM, these liabilities on Group SM's books have been recognized at their estimated fair value of zero in the purchase price allocation. The fair value of the remaining net assets acquired are as follows:

Assets Held for Sale	30-Jun-18
Assets acquired held for sale	$ 37,000
Liabilities acquired held for sale	(27,000)
Net Asset acquired held for sale	**$ 10,000**

Assets acquired relate primarily to working capital and intangible customer lists. Liabilities acquired relate primarily to working capital, Alaris' secured promissory note and $26.8 million in other third party debt. The preliminary purchase allocation is based on level 3 fair value measures obtained primarily from third party offers through the strategic process. The results of operations of Group SM in the period from June 15, 2018 to June 30, 2018 are included in interest and other income in the statement of comprehensive income/(loss).

10. Fair Value of Financial Instruments:

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

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

a) A going concern value was determined by calculating the discounted cash flow of the future expected distributions. Key assumptions used include the discount rate used in the calculation and estimates relating to changes in future distributions. For each individual Partner, the Corporation considered a number of different discount rate factors including what industry they operated in, the size of the company, the health of the balance sheet and the ability of the historical earnings to cover the future distributions. This was supported by the historical yield of the original investment, current investing yields, and the current yield of Alaris' publicly traded shares and of other similar public companies. Future distributions have been discounted at rates ranging from 13.25% - 19.50%. All of the investments except as noted below were valued on this basis at June 30, 2018 and December 31, 2017.

b) A liquidation value is used when there is concern around the collection of future distributions and the partner company is in default with the Corporation. The liquidation value is calculated using the formula specified in each of the Partnership agreements while considering an estimate of the current value of the private company to determine if there would be sufficient value to cover the liquidation amount. If not, the value is reduced to what the calculation estimates may be recovered (the liquidation value). There was no investment valued using this method at June 30, 2018. The Corporation's investment in Agility was valued on this basis at December 31, 2017.

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

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

The following items shown on the condensed consolidated statement of financial position as at June 30, 2018 and December 31, 2017, are measured at fair value on a recurring basis using level 2 or level 3 inputs. Discount rates and estimates used to determine changes in future distributions from each investment are the primary inputs in the fair value models and are generally unobservable. Accordingly, these fair value measures are classified as level 3. There were no transfers between level 2 or level 3 classified assets and liabilities during the three and six month period ended June 30, 2018.

Fair value classification *($ thousands)*	Level 1	Level 2	Level 3	Total
30-Jun-18				
Foreign exchange contracts	$ -	$ (456)	$ -	$ (456)
Net assets acquired held for sale	-	-	37,000	37,000
Liabilties acquired held for sale	-	-	(27,000)	(27,000)
Investments at fair value	-	-	637,050	637,050
Total at June 30, 2018	**$ -**	$ (456)	**$ 647,050**	**$ 646,594**
31-Dec-17	**Level 1**	**Level 2**	**Level 3**	**Total**
Foreign exchange contracts	$ -	1,430	$ -	1,430
Investments at fair value	-	-	669,216	669,216
Total at December 31, 2017	**$ -**	**$ 1,430**	**$ 669,216**	**$ 670,646**

The Corporation purchases forward exchange rate contracts to match expected after tax distributions in US dollars on a rolling 12 month basis and also for between 25% to 60% of the expected distributions on a rolling 12 to 24 month basis. The notional value of outstanding foreign exchange contracts is US$35.4 million as at June 30, 2018 (US$33.6 million as of December 31, 2017).

11. Commitments:

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

Commitments	30-Jun-18
2018	$ 432
2019	216
Total Commitments	**$ 648**