Unaudited Condensed Consolidated Interim

Financial Statements of

ALARIS ROYALTY CORP.

For the three and six months ended June 30, 2019 and 2018

Alaris Royalty Corp.

Condensed consolidated statements of financial position (unaudited)

$ thousands	Note	30-Jun 2019	31-Dec 2018
Assets			
Cash and cash equivalents		$ 13,862	$ 22,774
Prepayments		1,417	2,181
Trade and other receivables		1,885	923
Income taxes receivable		450	1,484
Investment tax credit receivable	9	-	2,798
Promissory notes receivable	4	21,831	23,252
Current Assets		$ 39,445	$ 53,413
Promissory notes and other receivables	4	29,809	26,959
Deposits	9	20,206	20,206
Property and equipment	3	777	344
Investments	4	839,327	790,175
Investment tax credit receivable	9	2,538	-
Deferred income taxes	9	-	281
Non-current assets		$ 892,657	$ 837,965
Total Assets		**$ 932,102**	**$ 891,378**
Liabilities			
Accounts payable and accrued liabilities		$ 2,422	$ 3,670
Dividends payable		5,035	5,013
Foreign exchange contracts		-	1,333
Office Lease	3	505	-
Income tax payable		550	1,257
Current Liabilities		$ 8,512	$ 11,273
Deferred income taxes	9	14,875	16,137
Loans and borrowings	6	187,704	228,103
Convertible debentures	7	90,132	-
Non-current liabilities		$ 292,711	$ 244,240
Total Liabilities		**$ 301,223**	**$ 255,513**
Equity			
Share capital	5	$ 623,208	$ 621,082
Equity component of convertible debenture	7	5,500	-
Equity reserve	8	13,806	14,679
Translation reserve		17,883	32,725
Retained earnings / (deficit)		(29,518)	(32,621)
Total Equity		**$ 630,879**	**$ 635,865**
Total Liabilities and Equity		**$ 932,102**	**$ 891,378**

Alaris Royalty Corp.

Condensed consolidated statements of comprehensive income (unaudited)

$ thousands except per share amounts	Note	Three months ended June 30 2019	Three months ended June 30 2018	Six months ended June 30 2019	Six months ended June 30 2018
Revenues					
Distributions	4	$ 26,260	$ 27,756	$ 52,853	$ 51,008
Interest	4	1,141	687	2,206	1,075
Total Revenue		**$ 27,401**	**$ 28,442**	**$ 55,059**	**$ 52,083**
Other income					
Gain on partner redemptions	4	$ -	$ 6,402	$ -	$ 8,144
Increase in investments at fair value	4	9,292	502	4,195	4,033
Realized gain / (loss) on foreign exchange contracts		(878)	13	(1,048)	152
Total other income		**$ 8,414**	**$ 6,917**	**$ 3,147**	**$ 12,329**
Salaries and benefits		$ 875	$ 1,348	$ 1,652	$ 2,030
Corporate and office		1,047	1,031	1,652	1,984
Legal and accounting fees		538	669	1,612	1,781
Transaction diligence costs		828	-	1,007	-
Non-cash stock-based compensation	8	899	767	1,253	1,535
Bad debt expense / (recovery) & reserve	4	(2,018)	-	(2,018)	25,974
Depreciation, amortization and accretion		159	65	330	130
Total operating expenses		2,328	3,879	5,488	33,433
Earnings before the undernoted		**$ 33,487**	**$ 31,480**	**$ 52,718**	**$ 30,979**
Finance costs	6	3,931	1,790	8,067	4,535
Unrealized (gain) / loss on foreign exchange contracts		(489)	695	(1,333)	1,914
Unrealized foreign exchange (gain) / loss		3,808	(3,553)	7,650	(8,031)
Earnings before taxes		**$ 26,237**	**$ 32,549**	**$ 38,334**	**$ 32,562**
Current income tax expense	9	2,785	5,012	5,317	10,107
Deferred income tax expense / (recovery)	9	1,485	674	(211)	(1,262)
Total income tax expense		4,270	5,686	5,106	8,845
Earnings		**$ 21,967**	**$ 26,863**	**$ 33,228**	**$ 23,717**
Other comprehensive income					
Foreign currency translation differences		(7,131)	7,005	(14,842)	14,272
Total comprehensive income		**$ 14,836**	**$ 33,868**	**$ 18,386**	**$ 37,989**
Earnings per share					
Basic		$ 0.60	$ 0.74	$ 0.91	$ 0.65
Fully diluted		$ 0.60	$ 0.73	$ 0.90	$ 0.65
Weighted average shares outstanding					
Basic	5	36,556	36,486	36,527	36,483
Fully Diluted	5	36,905	36,767	36,876	36,765

Alaris Royalty Corp.
Condensed consolidated statement of changes in equity (unaudited)
For the 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)	$ 604,544
Earnings for the period		$ -	$ -	$ -	$ -	$ 23,717	$ 23,717
Other comprehensive income / (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	8	$ -	$ 1,535	$ -	$ -	$ -	$ 1,535
Dividends to shareholders	5	-	-	-	-	(29,549)	(29,549)
Fair value reserve transferred to opening retained earnigns		-	-	17,036	-	(17,036)	-
RSU vested in the period		240	(240)	-	-	-	-
Total transactions with Shareholders of the Company		$ 240	$ 1,295	$ 17,036	$ -	$ (46,585)	$ (28,014)
Balance at June 30, 2018		**$ 621,082**	**$ 13,353**	**$ -**	**$ 20,039**	**$ (39,955)**	**$ 614,519**

Alaris Royalty Corp.
Condensed consolidated statement of changes in equity (unaudited)
For the six months ended June 30, 2019

$ thousands	Notes	Share Capital	Convertible Debenture	Equity Reserve	Translation Reserve	Retained Earnings / (Deficit)	Total Equity
Balance at January 1, 2019		$ 621,082	$ -	$ 14,679	$ 32,725	$ (32,621)	$ 635,865
Earnings for the period		$ -	$ -	$ -	$ -	$ 33,228	$ 33,228
Other comprehensive loss							
Foreign currency translation differences		-	-	-	(14,842)	-	(14,842)
Total comprehensive income / (loss) for the period		$ -	$ -	$ -	$ (14,842)	$ 33,228	$ 18,386
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	8	$ -	$ -	$ 1,253	$ -	$ -	$ 1,253
Dividends to shareholders	5	-	-	-	-	(30,126)	(30,126)
Equity component of convertible debenture	7	-	5,500	-	-	-	5,500
Shares issued pursuant to RSU vesting in the year		2,126	-	(2,126)	-	-	-
Total transactions with Shareholders of the Company		$ 2,126	$ 5,500	$ (873)	$ -	$ (30,126)	$ (23,373)
Balance at June 30, 2019		**$ 623,208**	**$ 5,500**	**$13,806**	**$ 17,883**	**$ (29,518)**	**$ 630,879**

Alaris Royalty Corp.

Condensed consolidated statements of cash flows (unaudited)

$ thousands	Notes	Six months ended June 30 2019	2018
Cash flows from operating activities			
Earnings for the period		$ 33,228	$ 23,717
Adjustments for:			
Finance costs	6	8,067	4,535
Deferred income tax expense / (recovery)		(211)	(1,262)
Depreciation, amortization and accretion		330	130
Bad debt expense / (recovery) & reserve	4	-	25,974
Gain on partner redemptions	4	-	(8,144)
Increase in investments at fair value	4	(4,195)	(4,033)
Unrealized (gain) / loss on foreign exchange contracts		(1,333)	1,914
Unrealized foreign exchange (gain) / loss		7,650	(8,031)
Transaction diligence costs		1,007	-
Non-cash stock-based compensation	8	1,253	1,535
		$ 45,796	$ 36,334
Change in:			
- trade and other receivables		(962)	7,044
- income tax receivable / payable		327	4,906
- prepayments		764	(183)
- accounts payable, accrued liabilities		(1,248)	480
Cash generated from operating activities		44,677	48,582
Cash interest paid	6, 7	(7,719)	(4,535)
Net cash from operating activities		$ 36,958	$ 44,047
Cash flows from investing activities			
Acquisition of investments	4	$ (87,154)	$ (56,325)
Transaction diligence costs		(1,007)	-
Proceeds from partner redemptions		13,505	133,621
Promissory notes issued	4	(3,929)	(8,352)
Promissory notes repaid	4	870	6,055
Acquisition of equipment		13	-
Net cash from / (used in) investing activities		$ (77,702)	$ 74,998
Cash flows from financing activities			
Repayment of loans and borrowings		$ (62,796)	$ (141,863)
Proceeds from loans and borrowings		30,634	44,137
Proceeds from convertible debenture, net of fees		95,572	-
Dividends paid	5	(30,103)	(29,550)
Office lease payments		(292)	-
Net cash from / (used in) financing activities		$ 33,015	$ (127,275)
Net decrease in cash and cash equivalents		$ (7,729)	$ (8,230)
Impact of foreign exchange on cash balances		(1,183)	376
Cash and cash equivalents, Beginning of period		22,774	35,475
Cash and cash equivalents, End of period		$ 13,862	$ 27,621
Cash taxes paid		$ 4,740	$ 5,700

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, 2019 and 2018 comprised of Alaris Royalty Corp. and its subsidiaries (together referred to as the "Corporation"). The Corporation's American investments are made 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 or common limited partnership interests, preferred or common interest in limited liability corporations in the United States, and loans receivable. 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 Accounting Standard 34 and do not include all the disclosures required for full annual financial statements and should be read in conjunction with the 2018 consolidated annual financial statements.

These condensed consolidated interim financial statements were approved by the Board of Directors on July 24, 2019.

(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 classified as fair value through profit or loss ("Investments at Fair Value") are measured at fair value with changes in fair value recorded in earnings (see note 4).
- 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 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 ("Investments at Fair Value") 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 financial assets at amortized cost

Management makes estimates of expected credit losses (ECLs) on its financial assets measured at amortized cost. ECL's are a probability weighted estimate of credit losses. 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, and information on security values.

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, 2018.

The Corporation has initially adopted IFRS 16 Leases effective January 1, 2019. IFRS 16 introduces a single, on balance-sheet accounting model for lessees. As a result, the Corporation has recognized a right of use asset representing its rights to use underlying assets and lease liabilities representing its obligations to make lease payments.

The Corporation has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Corporation determined at contract inception whether an arrangement was or contained a lease under IFRIC 4, Determining Whether an Arrangement Contains a Lease. The Corporation now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains a lease if the contract coveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Corporation elected to apply the practical expedient to grandfather the assessment of which contracts are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

The Corporation has also elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

Significant Accounting Policies

The Corporation recognizes a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost and subsequently measured at cost less any accumulated depreciation and impairment losses.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's incremental borrowing rate. The Corporation uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently measured at amortized cost.

Transition

Previously, the Corporation classified property leases as operating leases under IAS 17. This included the Corporation's office lease. At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Corporation's incremental borrowing rate as at January 1,

2019. The result is the recognition of a lease liability at January 1, 2019 of $0.7 million. A corresponding right of use asset has been recorded at an amount equal to the lease liability and is depreciated over the remaining term of the lease. The right of use asset is included in Property & equipment. The adoption of IFRS 16 had no impact on opening retained earnings.

New policy implemented in period:

Compound Financial Instruments:

The Corporation's compound financial instrument is comprised of its convertible debentures that can be converted to common shares at the option of the holder. The number of shares to be issued is fixed and does not vary with changes in fair value. The liability component of a convertible debenture is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between fair value of the compound financial instrument as a whole and the fair value of the liability component. Any direct attributable transaction costs are allocated to the liability component.

Subsequent to initial recognition, the liability component of a compound instrument is measured at amortized cost using the effective interest method. The equity component of the compound instrument is not re-measured subsequent to initial recognition. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

4. Investments

The following table lists the Corporation's investments at period end. For each period presented, all of the investments are recorded at fair value with the exception of the GWM loan receivable, which is recorded at amortized cost. Investments highlighted with asterisks include investments denominated in US dollars and have been translated into Canadian dollars using the period end exchange rate.

Investments at Fair Value & Amortized Cost *$ thousands*	**Acquisition Cost**	**Carrying Value**	**Acquisition Cost**	**Carrying Value**
As at	**30-Jun-19**		**31-Dec-18**	
Lower Mainland Steel Limited Partnership ("LMS")*	$ 60,426	$ 41,167	$ 60,690	$ 39,769
SCR Mining and Tunneling, LP ("SCR")	40,487	32,803	40,487	28,903
Kimco Holdings, LLC ("Kimco")*	46,095	24,926	48,016	25,965
PF Growth Partners, LLC ("PFGP")*	27,756	36,499	28,913	34,064
DNT, LLC ("DNT")*	89,357	90,295	93,082	94,059
Federal Resources Supply Company ("FED")*	88,965	96,294	92,674	100,309
Sandbox Acquisitions, LLC ("Sandbox")*	53,339	57,843	48,711	53,318
Providence Industries, LLC ("Providence")*	39,800	30,832	41,459	39,007
Unify, LLC ("Unify")*	16,131	17,700	16,803	18,441
ccCommunications LLC ("ccComm")*	21,295	20,885	22,183	21,755
Accscient, LLC ("Accscient")*	50,731	51,048	41,829	42,261
Sales Benchmark Index LLC ("SBI")*	111,919	108,199	116,585	124,783
Heritage Restoration, LLC ("Heritage")*	17,769	20,693	18,511	21,556
Fleet Advantage, LLC ("Fleet")*	19,008	19,645	19,802	20,464
Body Contour Centers, LLC ("BCC")*	57,040	60,251	59,418	62,763
GWM Holdings, Inc ("GWM")*	5,736	5,894	5,975	6,139
GWM Loan Receivable at amortized cost*	52,899	54,353	55,104	56,619
Amur Financial Group ("Amur")	50,000	50,000	-	-
Amur Financial Group ("Amur Common Equity")	20,000	20,000	-	-
Total Investments	**$ 868,753**	**$ 839,327**	**$ 810,242**	**$ 790,175**

<u>Transactions closed in 2019</u>

Investment into existing partner Accscient

On January 12, 2019, the Corporation invested an additional US$8.0 million into Accscient in exchange for initial annual distributions of US$1.1 million. The contribution represents the Corporation's fifth investment (including the initial) into Accscient for a total of US$38.0 million.

Investment into existing partner Sandbox

On February 22, 2019, the Corporation contributed an additional US$5.0 million into Sandbox, in exchange for initial annual distributions of US$0.8 million. This is the Corporation's fourth additional contribution into Sandbox and has a minimum repurchase premium of US$1.0 million and may include a percentage of common equity upon redemption.

On June 27, 2019, the Corporation loaned Sandbox an additional US$3.0 million on the senior revolver credit facility that is outstanding with the Corporation.

Partial Redemption of Redeemable SBI Units

On May 10, 2019, the Corporation received a partial redemption of US$10.0 million from SBI in exchange for preferred units which had an associated US$1.4 million of annual distributions. The preferred units were redeemed at par, in accordance with our operating agreement.

Proceeds from Phoenix (formerly KMH)

On May 31, 2019, the Corporation received US$1.5 million from the third party which purchased a US loan the Corporation had outstanding with Phoenix Holdings Limited ("Phoenix"), a previous partner of the Corporation. The US$1.5 million was recorded as a recovery of a previously recorded bad debt during the three and six months ended June 30, 2019.

Initial Investment into Amur Financial Group ("Amur")

On June 21, 2019, the Corporation made an initial contribution into Amur Financial Group which consisted of $48.0 million of debt, $2.0 million of preferred equity and an investment of $20.0 million in exchange for a minority ownership of the common equity in Amur. The Amur contribution in exchange for debt and preferred units of $50.0 million, will result in an initial annualized distribution to the Corporation of $6.5 million. The Amur distribution will be adjusted annually (commencing January 1, 2021) based on the change in Amur's gross revenues, subject to a +/- 6% collar. The Corporation is entitled to their ownership percentage of any common equity distributions declared.

The investments in Amur will be recorded at fair value. As the fair value of preferred units and debt will vary based on expected variability in future distributions, it will be recorded separately from the fair value of the common units, which will be based on the underlying value of Amur's business.

Assumptions used in fair value calculations:

The Corporation recognizes that the determination of fair value of its investments at fair value 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 estimates the fair value of the investments at fair value by evaluating a number of different methods. At June 30, 2019, other than the investment in Planet Fitness which was valued using the redemption amount, all investments are valued using a going concern value. At December 31, 2018 the valuation method used was a going concern value.

The going concern value was determined by calculating the discounted cash flow of the future expected distributions and discounted cash flows of the underlying business in determining the going concern value of common equity investments. 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 the Corporations' publicly traded shares and of other similar public companies. Future distributions have been discounted at rates ranging from 13.3% - 19.5%. The Corporation considers the maximum repurchase price in all fair value adjustments of investments.

Royalties and Distributions:

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

Partner Distributions:	**Three months ended June 30**		**Six months ended June 30**	
$ thousands	**2019**	**2018**	**2019**	**2018**
SBI	$ 3,732	$ 3,566	$ 7,699	$ 7,058
DNT	3,711	3,696	7,510	7,322
FED	3,795	3,435	7,493	6,829
BCC	2,154	-	4,295	-
Sandbox	2,066	1,732	3,980	3,545
GWM	1,867	-	3,722	-
Accscient	1,865	993	3,676	1,941
LMS	1,490	1,395	2,790	2,575
PFGP	1,276	1,858	2,448	4,028
Providence	784	1,525	2,355	3,020
Heritage	777	724	1,574	1,249
ccComm	785	451	1,564	758
Fleet	703	115	1,401	115
Unify	645	890	1,286	1,761
SCR	450	450	900	750
Amur	160	-	160	-
Kimco	-	387		387
Labstat	-	6,236	-	8,340
End of the Roll	-	303	-	692
Agility Health	-	-	-	637
Total Distributions	$ 26,260	$ 27,756	$ 52,853	$ 51,008
Other Income				
Interest	1,141	687	2,206	1,075
Total Revenue	**$ 27,401**	**$ 28,442**	**$ 55,059**	**$ 52,083**

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. Should there be an adverse event to any of the below 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. The Corporation will continue to pursue recovery of the full face value for all outstanding promissory notes. Below is a summary of changes in promissory notes and other receivables for the six months ended June 30, 2019.

Reconciliation of Promissory Notes and Other Receivables *($ thousands)*	Six months ended June 30
Face Value - Opening	$ 93,731
Opening provision for credit losses	(43,520)
Carrying Value as at December 31, 2018	**$ 50,211**
Additions	3,929
Repayments	(870)
Foreign exchange	(1,630)
Carrying Value as at June 30,2019	**$ 51,640**
Promissory notes & other receivables - current	$ 21,831
Promissory notes & other receivables - non-current	$ 29,809

The Corporation has the following promissory notes and long-term receivables by partner outstanding as of June 30, 2019:

Promissory Notes and Other Receivables by Partner	Carrying Value	
($ thousands)	*30-Jun-19*	*31-Dec-18*
Lower Mainland Steel	$ 5,000	$ 5,000
Sandbox	21,340	18,136
Group SM - secured promissory note	3,629	4,500
Agility - accounts receivable	1,964	2,046
Kimco - long-term accounts receivable	2,387	2,494
Kimco	17,320	18,035
Balance	**$ 51,640**	**$ 50,211**

The expected credit loss model classifies the Corporation's outstanding promissory notes and other receivables in three stages based on their credit quality. Stage 1 represents the lowest credit risk and stage 3 representing loans that are credit impaired. As at June 30, 2019 the Corporation had $49.2 million (December 31, 2018 - $47.7 million) of promissory notes and other receivables classified as stage 1 and $2.4 million classified as stage 3 (December 31, 2018 - $2.5 million). There was no transfer between stages during the three and six months ended June 30, 2019. The cumulative total credit loss provision as at June 30, 2019 is $43.5 million (of the cumulative credit loss $1.0 million would be classified as stage 1 and $42.5 million would be classified as stage 3).

5. Share capital:

The Corporation has authorized, issued and outstanding, 36,614,247 voting common shares as at June 30, 2019 (December 31, 2018 – 36,496,247).

Issued Common Shares	Number of Shares	Amount ($)
	thousands	*$ thousands*
Balance at December 31, 2017	36,481	$ 620,842
RSUs vested	15	240
Balance at December 31, 2018	36,496	$ 621,082
RSU's issued to management & directors	118	2,126
Balance at June 30, 2019	**36,614**	**$ 623,208**

Weighted Average Shares Outstanding	**Three months ending June 30**		**Six months ended June 30**	
thousands	**2019**	**2018**	**2019**	**2018**
Weighted average shares outstanding, basic	36,556	36,486	36,527	36,483
Effect of outstanding RSUs	349	281	349	281
Weighted average shares outstanding, fully diluted	36,905	36,767	36,876	36,765

1,632,605 and 2,242,364 options were excluded from the calculation as they were anti-dilutive at June 30, 2019 and December 31, 2018 respectively.

Dividends

The Corporation declared a monthly dividend of $0.1375 per common share in each of the six months of 2019, $0.825 per share and $30.1 million in aggregate (2018 - $0.81 per share and $29.5 million in aggregate).

6. Loans and borrowings:

As at June 30, 2019 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 6.2% for the three and six months ended June 30, 2019. At June 30, 2019, the Corporation had USD$125.0 million and CAD$24.0 million (CAD$187.7 million) drawn on its credit facility (December 31, 2018 - USD$167.2 million and CAD nil, CAD$228.1 million).

At June 30, 2019 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, which can be increased to 3.0:1 for up to ninety days (actual ratio is 1.85:1 at June 30, 2019); minimum tangible net worth of $450.0 million (actual amount is $625.4 million at June 30, 2019); and a minimum fixed charge coverage ratio of 1:1 (actual ratio is 1.13:1 at June 30, 2019).

7. Convertible debenture:

During the quarter, the Corporation issued $100.0 million aggregate principal amount of convertible unsecured subordinated debentures ("Debentures") at a price of $1,000 per Debenture and an interest rate of 5.50% per annum, payable semi-annually on the last business day of June and December commencing December 31, 2019 with a maturity date of June 30, 2024.

The Debentures are convertible at the holder's option at any time prior to the close of business on the earlier of the business day immediately preceding the maturity date of June 30, 2024 and the date specified by the Corporation for redemption of the Debentures into fully paid and non-assessable common shares of the Corporation at a conversion price of $24.25 per common share, being a conversion rate of approximately 41.2371 common shares for each $1,000 principal amount of Debentures.

The Debentures are not redeemable by the Corporation before June 30, 2022. On and after June 30, 2022 and prior to June 30, 2023, the Debentures may be redeemed in whole or in part from time to time at the option of the Corporation at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the common shares on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given is not less than 125% of the conversion price. On and after June 30, 2023, the Debentures may be redeemed in whole or in part from time to time at the option of the Corporation at a price equal to their principal amount plus accrued and unpaid interest regardless of the trading price of the common shares.

Convertible Debenture *($ thousands)*	**Debt**	**Equity**	**Total**
Balance at December 31, 2018	$ -	$ -	$ -
Face value of issuance	94,500	5,500	100,000
Issuance Cost	(4,428)	-	(4,428)
Accretion to face value	60	-	60
Balance at June 30, 2019	**$ 90,132**	**$ 5,500**	**$ 95,632**

The liability component of the convertible debenture was initially recognized at the fair value of a liability which does contain an equity conversion option, based on a market interest rate of 7.0%. The difference between the principal $100.0 million and the fair value of the liability component was recognized in equity. The Corporation recorded $4.4 million in issuance costs which will be amortized using the effective interest rate method over the five year term of the convertible debenture.

8. 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 792,724 and issued 348,833 RSUs to management and Directors as of June 30, 2019. The RSUs issued to directors (93,605) vest over a three year period. The RSUs issued to management (255,228) do not vest until the end of a three year period, (42,922 in July 2019, 29,888 in October 2020, 147,450 in July 2021 and 34,968 in March 2022) and are subject to certain performance conditions relating to operating cash flow per share. The Corporation approved 157,300 RSUs for management and 15,000 RSUs for directors during the three and six months ended June 30, 2019. 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 and issued 1,632,605 options as of June 30, 2019. The options outstanding at June 30, 2019, have an exercise price in the range of $20.60 to $31.15, a weighted average exercise price of $23.87 (2018 – $25.56) and a weighted average contractual life of 2.1 years (2018 – 2.05 years).

For the three months ended June 30, 2019 the Corporation incurred stock-based compensation expenses of $0.9 million (2018 - $0.8 million) which includes: $0.9 million (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2018 - $0.5 million); and a nominal amount (non-cash expense) for the amortization of the fair value of outstanding stock options (2018 - $0.3 million).

For the six months ended June 30, 2019 the Corporation incurred stock-based compensation expenses of $1.3 million (2018 - $1.5 million) which includes: $1.1 million (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2018 - $1.0 million); and $0.2 million (non-cash expense) for the amortization of the fair value of outstanding stock options (2018 - $0.5 million).

9. 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, 2017 (collectively the "Reassessments"). Pursuant to the Reassessments, the deduction of approximately $121.2 million of non-capital losses and utilization of $7.2 million in investment tax credits ("ITC's") by the Corporation was denied, resulting in reassessed taxes and interest of approximately $48.0 million. Subsequent to filing the notice of objection for the July 14, 2009 taxation year, the Corporation 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 $20.2 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 its tax filings for the 2018 taxation year, thereby disallowing ITC's of $1.4 million, on the same basis. The carrying values of the remaining ITC's of $2.3 million at January 1, 2019 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.

In December of 2018 the U.S. Treasury issued proposed regulations which provided administrative guidance and clarified certain aspects of U.S. Tax Reform. The proposed regulations are complex and comprehensive, and considerable uncertainty continues to exist until the final regulations are released, which is expected to occur later in 2019. As these proposed regulations have not been enacted as at June 30, 2019, their impact has not been reflected in income tax expense. However, if the proposed regulations are enacted as currently drafted, certain provisions could be effective commencing January 1, 2019. Based on the Corporation's current capital structure, the resulting increase to income tax expense of the Company for the period ended, June 30, 2019 would be an increase of approximately $5.5 million.

10. Fair Value of Financial Instruments:

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 interim statement of financial position as at June 30, 2019 and December 31, 2018, 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 months ended June 30, 2019.

Fair value classification *($ thousands)*	**Level 1**	**Level 2**	**Level 3**	**Total**
30-Jun-19				
Foreign exchange contracts	$ -	$ -	$ -	$ -
Investments	-	-	839,327	839,327
Total at June 30, 2019	**$ -**	**$ -**	**$ 839,327**	**$ 839,327**
31-Dec-18	**Level 1**	**Level 2**	**Level 3**	**Total**
Foreign exchange contracts	$ -	$ (1,333)	$ -	$ (1,333)
Investments	-	-	790,175	790,175
Total at December 31, 2018	**$ -**	**$ (1,333)**	**$ 790,175**	**$ 788,842**

The Corporation purchases forward exchange rate contracts to match expected after tax distributions in US dollars on a rolling 12-month basis as well as occasionally purchasing contracts for the following 12 months. The notional value of outstanding foreign exchange contracts is US$13.0 million as at June 30, 2019 (US$24.7 million as of December 31, 2018).

The most significant inputs in the calculation of fair value of Level 3 Investments at Fair value is the discount rate applied to expected future cash flows and future distributions. If the discount rate increased (decreased) by 1%, the fair value of Level 3 investments at June 30, 2019 would increase by $62.8 million and decrease by $53.6 million. If future distributions increased (decreased) by 1% the fair value of Level 3 investments would increase by $7.7 million and decrease by $7.7 million.

11. Commitments:

The Corporation has a commitment through 2020 of up to US$45.0 million to Body Contour Centers ("BCC") to fund additional contributions when specified financial metrics are achieved.

12. Subsequent Events

ccComm Additional Contribution

On July 2, 2019, the Corporation contributed an additional US$2.0 million to ccComm in exchange for initial annualized distributions of US$0.3 million.

Sandbox Additional Draw on Debt

On July 9, 2019, Sandbox loaned an additional US$1.5 million on the senior revolver credit facility which is outstanding with the Corporation.

PFGP Additional Contribution

On July 11, 2019, the Corporation contributed an additional US$60.2 million to PFGP. The additional contribution consists of a new US$43.7 million preferred equity contribution as well as an investment of US$16.5 million in exchange for a minority ownership of the common equity in PFGP. This transaction also included an exchange of the Corporation's existing preferred units in PFGP valued at US$27.8 million, resulting in a total investment following the transaction of US$88.0 million in PFGP. The new preferred units in PFGP will have a value of US$71.5 million resulting in an initial annualized distribution on these preferred units of US$8.9 million. The reset metric is based on same club sales and will adjust +/- 5%, with the next reset effective January 1, 2020.

The Corporation has also committed to a further US$8.0 million investment in PFGP (an additional US$6.5 million of preferred equity and US$1.5 million of common equity, terms consistent with the two existing classes). This funding is conditional on a joint venture agreement between PFGP and a third party, timing of the additional funding is to be determined.

Fleet Partial Redemption

On July 22, 2019, Fleet repurchased US$5.0 million of their redeemable units at par, as per their operating agreement. Subsequent to the redemption, the Corporation has US$10.0 million invested (of which US$2.5 million can be redeemed at par at any time), with a current annualized distribution of US$1.4 million.