Unaudited Condensed Consolidated Interim

Financial Statements of

ALARIS ROYALTY CORP.

For the three months ended March 31, 2020 and 2019

Alaris Royalty Corp.

Condensed consolidated interim statements of financial position (unaudited)

$ thousands	Note	31-Mar 2020	31-Dec 2019
Assets			
Cash and cash equivalents		$ 24,371	$ 17,104
Prepayments		1,847	1,509
Derivative contracts	10	-	555
Trade and other receivables		2,614	1,226
Income taxes receivable		9,639	4,205
Investment tax credit receivable	9	1,731	1,032
Assets acquired held for sale	4	-	97,173
Promissory notes receivable	4	6,130	6,580
Current Assets		$ 46,332	$ 129,384
Promissory notes and other receivables	4	21,239	19,663
Deposits	9	20,206	20,206
Property and equipment		978	1,053
Investments	4	739,720	881,037
Investment tax credit receivable	9	1,506	2,243
Deferred income taxes	9	5,481	986
Non-current assets		$ 789,130	$ 925,188
Total Assets		**$ 835,462**	**$ 1,054,572**
Liabilities			
Accounts payable and accrued liabilities		$ 3,066	$ 2,713
Dividends payable		5,019	5,047
Derivative contracts	10	6,835	-
Liabilities acquired held for sale	4	-	60,297
Office Lease		775	837
Income tax payable		449	384
Current Liabilities		$ 16,144	$ 69,278
Deferred income taxes	9	2,985	4,715
Loans and borrowings	6	150,493	285,193
Convertible debenture	7	91,366	90,939
Non-current liabilities		$ 244,844	$ 380,847
Total Liabilities		**$ 260,988**	**$ 450,125**
Equity			
Share capital	5	$ 623,035	$ 625,313
Equity component of convertible debenture	7	4,059	4,059
Equity reserve	8	15,343	14,763
Translation reserve		46,577	17,076
Retained earnings / (deficit)		(114,540)	(56,764)
Total Equity		**$ 574,474**	**$ 604,447**
Total Liabilities and Equity		**$ 835,462**	**$ 1,054,572**

Commitments	11		
Subsequent events	5, 9		

Alaris Royalty Corp.

Condensed consolidated interim statements of comprehensive income / (loss) (unaudited)

$ thousands except per share amounts	Note	Three months ended March 31 2020	Three months ended March 31 2019
Revenues, net of realized foreign exchange gain or loss	4	$ 33,971	$ 27,488
Net realized gain from investments	4	11,603	-
Net unrealized losses of investments at fair value	4	(96,527)	(5,097)
Total revenue and other operating income / (loss)		**$ (50,953)**	**$ 22,391**
General and administrative		$ 2,773	$ 2,525
Transaction diligence costs		1,977	179
Non-cash stock-based compensation	8	743	353
Depreciation and amortization		77	102
Total operating expenses		5,570	3,159
Earnings / (loss) from operations		**$ (56,523)**	**$ 19,232**
Finance costs	6, 7	4,754	4,136
Unrealized (gain) / loss on foreign exchange		(6,993)	2,998
Earnings / (loss) before taxes		**$ (54,284)**	**$ 12,098**
Current income tax expense / (recovery)	9	(5,586)	2,532
Deferred income tax recovery	9	(6,036)	(1,696)
Total income tax expense / (recovery)		(11,622)	836
Earnings / (loss)		**$ (42,662)**	**$ 11,262**
Other comprehensive income / (loss)			
Foreign currency translation differences		29,501	(7,711)
Total comprehensive income / (loss)		**$ (13,161)**	**$ 3,551**
Earnings / (loss) per share			
Basic		$ (1.16)	$ 0.31
Fully diluted		$ (1.16)	$ 0.31
Weighted average shares outstanding			
Basic	5	36,694	36,496
Fully Diluted	5	37,104	36,772

Alaris Royalty Corp.
Condensed consolidated interim statement of changes in equity (unaudited)
For the three months ended March 31, 2019

$ thousands	Notes	**Share Capital**	**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		-	-	-	11,262	11,262
Other comprehensive income / (loss)						
Foreign currency translation differences		-	-	(7,711)	-	(7,711)
Total comprehensive income / (loss) for the period		$ -	$ -	$ (7,711)	$ 11,262	$ 3,551
Transactions with shareholders of the Company, recognized directly in equity						
Non-cash stock based compensation	8	$ -	$ 353	$ -	$ -	$ 353
Dividends to shareholders	5	-	-	-	(15,054)	(15,054)
Total transactions with Shareholders of the Company		$ -	$ 353	$ -	$ (15,054)	$ (14,701)
Balance at March 31, 2019		**$ 621,082**	**$ 15,032**	**$ 25,014**	**$ (36,413)**	**$ 624,715**

Alaris Royalty Corp.
Condensed consolidated interim statement of changes in equity (unaudited)
For the three months ended March 31, 2020

$ thousands	Notes	Share Capital	Convertible Debenture	Equity Reserve	Translation Reserve	Retained Earnings / (Deficit)	Total Equity
Balance at January 1, 2020		$ 625,313	$ 4,059	$ 14,763	$ 17,076	$ (56,764)	$ 604,447
Earnings / (loss) for the period		-	-	-	-	(42,662)	(42,662)
Other comprehensive loss							
Foreign currency translation differences		-	-	-	29,501	-	29,501
Total comprehensive income / (loss) for the period		$ -	$ -	$ -	$ 29,501	$ (42,662)	$ (13,161)
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	8	$ -	$ -	$ 743	$ -	$ -	$ 743
Dividends to shareholders	5	-	-	-	-	(15,114)	(15,114)
Common shares repurchased under the NCIB	5	(2,441)	-	-	-	-	(2,441)
Shares issued under RSU plan	5	163	-	(163)	-	-	-
Total transactions with Shareholders of the Company		$ (2,278)	$ -	$ 580	$ -	$ (15,114)	$ (16,812)
Balance at March 31, 2020		**$ 623,035**	**$ 4,059**	**$ 15,343**	**$ 46,577**	**$ (114,540)**	**$ 574,474**

Alaris Royalty Corp.
Condensed consolidated interim statements of cash flows (unaudited)

		Three months ended March 31	
$ thousands	Notes	2020	2019
Cash flows from operating activities			
Earnings / (loss) for the period		$ (42,662)	$ 11,262
Adjustments for:			
Finance costs	6, 7	4,754	4,136
Deferred income tax recovery		(6,036)	(1,696)
Depreciation and amortization		77	102
Net realized gain from investments	4	(11,603)	-
Net unrealized losses of investments at fair value	4	96,527	5,097
Unrealized (gain) / loss on foreign exchange		(6,993)	2,998
Transaction diligence costs		1,977	179
Non-cash stock-based compensation	8	743	353
Change in:			
- trade and other receivables		(683)	(679)
- income tax receivable / payable		(5,369)	4,121
- prepayments		(338)	620
- accounts payable, accrued liabilities		(1,046)	(1,770)
Cash generated from operating activities		$ 29,348	$ 24,723
Cash interest paid	6	(2,796)	(4,136)
Net cash from operating activities		$ 26,552	$ 20,587
Cash flows from investing activities			
Acquisition of investments	4	$ (4,941)	$ (17,154)
Transaction diligence costs		(1,977)	(179)
Proceeds from partner redemptions	4	111,306	-
Proceeds on disposal of assets and liabilities held for sale	4	38,491	-
Promissory notes repaid	4	450	870
Net cash from / (used in) investing activities		$ 143,329	$ (16,463)
Cash flows from financing activities			
Repayment of loans and borrowings	6	$ (151,102)	$ -
Proceeds from loans and borrowings	6	7,903	6,634
Dividends paid	5	(15,142)	(15,054)
Common share repurchases	5	(2,441)	-
Office lease payments		(63)	(64)
Net cash used in financing activities		$ (160,845)	$ (8,484)
Net increase / (decrease) in cash and cash equivalents		$ 9,036	$ (4,360)
Impact of foreign exchange on cash balances		(1,769)	(596)
Cash and cash equivalents, Beginning of period		17,104	22,774
Cash and cash equivalents, End of period		$ 24,371	$ 17,818
Cash taxes received		$ (555)	$ (1,638)

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 months ended March 31, 2020 and 2019 are 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 2019 consolidated annual financial statements.

Certain comparative period balances have been reclassified to conform with the current period presentation.

These condensed consolidated interim financial statements were approved by the Board of Directors on May 5, 2020.

(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 the investments that are listed in Note 4 (collectively the "Partners") are in default, other valuation methods may be used.

For the period ended March 31, 2020 and as discussed further in Note 4, the Corporation has used estimates and judgments related to the impact COVID 19 has had and is currently expected to have on its Partners in the determination of the fair value of the investments at March 31, 2020. These estimates are based on the information available to the Corporation to the date of the financial statements. The situation remains fluid and certain impacts to our Partner's businesses continue to remain unknown and may reasonably result in future adjustments to our fair value assumptions within the next twelve months. Refer to Note 4 for further details on these key estimates and the impact on the Investments at Fair Value at March 31, 2020.

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.

For the period ended March 31, 2020, consistent with that noted above with respect to key estimates used in discounted cash flow projections, the Corporation has used estimates and judgments related to the impact COVID 19 has had and is currently expected to have on its Partners in the determination of any expected credit losses as of March 31, 2020. The situation remains fluid and certain impacts to our Partner's businesses continue to remain unknown and may reasonably result in future adjustments to our expected credit loss assumptions within the next twelve months.

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.

Impact of COVID-19

The COVID-19 pandemic did not have a significant impact on the Corporation's operations in the three months ending March 31, 2020, except for a reduction in the fair value of investments of approximately $85 million as at March 31, 2020. These reductions in fair value are based on the impact the pandemic has had or is expected to have on each of the Partner companies, as previously noted. There may be disruption in revenues from certain partners throughout the remainder of 2020 and the Corporation will record revenue as received given the uncertainty created by the pandemic.

3. Significant accounting policies:

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, 2019.

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 are, or include, US dollar investments and have been translated into Canadian dollars using the period end exchange rate.

Investments at Fair Value & Amortized Cost *$ thousands*	**Carrying Value**		**Acquisition Cost**	
As at	**31-Mar-20**	**31-Dec-19**	**31-Mar-20**	**31-Dec-19**
Lower Mainland Steel Limited Partnership ("LMS")*	$ 44,089	$ 49,054	$ 60,918	$ 60,412
SCR Mining and Tunneling, LP ("SCR")	34,503	34,503	40,487	40,487
Kimco Holdings, LLC ("Kimco")*	15,996	14,809	49,681	45,993
PF Growth Partners, LLC ("PFGP")*	95,362	94,498	106,976	90,008
PF Growth Partners, LLC ("PFGP Common Equity")*	21,377	21,807	24,482	21,972
DNT, LLC ("DNT")*	92,379	90,095	96,309	89,159
Federal Resources Supply Company ("FED")*	103,786	96,081	95,887	88,768
Providence Industries, LLC ("Providence")*	-	29,980	42,897	39,712
Unify, LLC ("Unify")*	35,290	32,670	32,269	29,873
ccCommunications LLC ("ccComm")*	5,404	19,376	37,835	35,026
Accscient, LLC ("Accscient")*	51,632	50,020	54,703	50,642
Sales Benchmark Index LLC ("SBI")*	-	110,085	-	98,534
Heritage Restoration, LLC ("Heritage")*	21,457	21,170	19,152	17,730
Fleet Advantage, LLC ("Fleet")*	13,974	13,590	13,658	12,644
Body Contour Centers, LLC ("BCC")*	61,692	61,294	61,477	56,913
GWM Holdings, Inc ("GWM")*	10,728	9,932	6,182	5,723
GWM Loan Receivable at amortized cost*	58,581	54,232	58,581	54,232
Amur Financial Group ("Amur")	47,300	50,000	50,000	50,000
Amur Financial Group ("Amur Common Equity")	17,700	20,000	20,000	20,000
Stride Consulting LLC ("Stride")*	8,470	7,841	8,470	7,973
Total Investments	**$ 739,720**	**$ 881,037**	**$ 879,965**	**$ 915,801**

Transactions closed in 2020

Redemption of SBI

On January 7, 2020, SBI entered into a purchase and sale agreement with a third party pursuant to which SBI redeemed all of the Corporation's outstanding US$75.0 million of preferred units. The gross proceeds on the redemption to the Corporation were US$91.3 million, which consisted of US$84.3 million for the preferred units (inclusive of a US$9.3 million premium) as well as US$7.0 million of distributions for the amounts owed up to the third anniversary date of the Corporation's initial investment, being August 31, 2020. These distributions were previously unaccrued and were therefore included as revenue in the three months ended March 31, 2020. The gain on redemption had been previously recorded as increases to the investment at fair value over time; however, during the three months ended March 31, 2020 the Corporation reclassified this gain from gains and losses of investments at fair value to realized gain from investments.

Redemption of Sandbox Acquisitions, LLC and Sandbox Advertising LP (collectively, "Sandbox")

On February 28, 2020, the Corporation exited its investment in Sandbox for total consideration of US$32.6 million. The proceeds from the Sandbox sale were used to repay outstanding debt and accrued interest owed to the Corporation of US$21.9 million, to pay US$1.5 million of accrued distributions owed to the Corporation and US$5.1 million to redeem all of the outstanding preferred units. Also included in the total proceeds of US$32.6 million is US$4.1 million to remain in escrow to cover working capital adjustments and indemnity obligations, which, if released, is expected to be paid out over a period of 24 months. The Corporation may also receive up to an additional US$2.0 million pursuant to an earnout if certain financial performance criteria are satisfied. The escrow and earnout amounts have not been recorded on the balance sheet and will only be recorded once received.

Revenues, expenses and net earnings from Sandbox in the interim period up to the closing date of February 28, 2020, did not have a material impact on the Corporation's statement of comprehensive income.

As at December 31, 2019, this investment was classified as assets and liabilities held for sale on the Corporation's statement of financial position.

PFGP Additional Contributions

On March 13, 2020, the Corporation made an additional US$3.5 million contribution to PFGP in exchange for an additional US$2.8 million of preferred units and US$0.7 million of a minority interest of the common equity in PFGP. The contribution was part of a total commitment of US$8.0 million to be used as part of expansion into new markets. Following this contribution of US$3.5 million and US$1.0 million in December 2019, the remaining commitment to be funded to PFGP is US$3.5 million. Timing of future funding is expected to be within the next twelve months.

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 typically estimates the fair value of the investments by calculating the discounted cash flow of the future expected distributions for preferred equity and debt instruments carried at fair value. The Corporation estimates the fair value of its common equity investments using discounted cash flows of the underlying business. Key assumptions used in the valuation of the preferred equity investments include the discount rate, terminal growth rate and estimates relating to changes in future distributions. Key assumptions used in the valuation of the common equity investments include the discount rate, earnings and earnings multiples underlying each business. The Corporation also considers the maximum repurchase price outlined in the respective partnership agreement in all fair value adjustments of investments.

For each individual partner, the Corporation considered a number of different discount rate factors including what industry they operate 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 Corporation's publicly traded shares and of other similar public companies. Cash flows have been discounted at rates ranging from 12.5% - 19.5%.

For the period ended March 31, 2020, the Corporation has made estimates of the impact of the COVID-19 pandemic as it relates to each Partner's business in determining the fair value of each investment. Assumptions that were assessed and adjusted, where required, for each Partner included:

- Amount of distributions: For each Partner, the Corporation estimated whether cash distributions would be impacted, including the potential for non-receipt and/or deferrals and adjusted assumptions where necessary
- Timing of distributions: For each Partner, the Corporation estimated whether the timing of receipt of contractually agreed upon distributions would likely be impacted and adjusted assumptions where necessary
- Financial results and distribution growth rates: For each Partner, the Corporation estimated the impact the situation would have on the relevant Partner re-set metrics and financial performance, and adjusted assumptions related to distribution growth rates and assumptions used in the common equity valuation where necessary

- Discount rates: Based on the matters and assumptions as described above, the Corporation also considered the need to adjust discount rates used and adjusted assumptions where necessary

Due to the fluid situation and the varying impacts it has on each Partner, these assumptions will be refined each reporting period as new information is obtained and may continue to require future adjustment to the fair value of the investments. All assumptions made at March 31, 2020 are based on the information available to the Corporation as of the date of these financial statements. Refer to Note 10 for additional information, including sensitivity analyses to these inputs.

Distributions:

The Corporation recorded distribution revenue, interest and realized gain/losses on foreign exchange contracts as follows:

Partner Distributions:	**Three months ended March 31**	
$ thousands	**2020**	**2019**
SBI	$ 9,176	$ 3,967
DNT	3,775	3,799
FED	3,653	3,698
PFGP	2,696	1,172
BCC	2,159	2,141
GWM	2,020	1,855
Accscient	1,869	1,811
LMS	1,765	1,300
Amur	1,623	-
Unify	1,090	641
SCR	950	450
Heritage	829	797
Providence	514	1,571
Fleet	498	698
ccComm	294	779
Stride	282	-
Sandbox	-	1,914
Total Distributions	$ 33,193	$ 26,593
Interest	700	1,065
Realized gain / (loss) on derivative contracts	78	(170)
Revenues, net of realized foreign exchange gain or loss	**$ 33,971**	**$ 27,488**

The total revenues, net of realized foreign exchange gain or loss, includes the total distributions received from partners, interest income received from partners on outstanding promissory notes and the realized gain or loss on derivative contracts.

Promissory Notes and Other Receivables:

As part of being a long-term partner with the entities 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 the 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 three months ended March 31, 2020.

Reconciliation of Promissory Notes and Other Receivables *($ thousands)*	Three months ended
	31-Mar-20
Face Value - Opening	$ 71,366
Opening provision for credit losses	(45,123)
Carrying value as at beginning of period	**$ 26,243**
Repayments	(450)
Foreign exchange	1,576
Carrying value as at end of period	**$ 27,369**
Promissory notes & other receivables - current	$ 6,130
Promissory notes & other receivables - non-current	$ 21,239

The Corporation has the following promissory notes and long-term receivables outstanding as of March 31, 2020:

Promissory Notes and Other Receivables by Partner	Note	Carrying Value	
($ thousands)		*31-Mar-20*	*31-Dec-19*
Lower Mainland Steel	*(1)*	$ 5,000	$ 5,000
Group SM	*(2)*	1,130	1,580
Kimco - long-term accounts receivable	*(3)*	2,586	2,381
Kimco	*(4)*	18,653	17,282
Balance		**$ 27,369**	**$ 26,243**

(1) - unsecured short-term note bearing interest of 10% per annum

(2) - short-term note secured against outstanding accounts receivable and has a first lien on the business. The note bears interest of 7% per annum.

(3) - unpaid distributions reclassified to long-term accounts receivable in 2016, discounted based on recoverability. Non-interest bearing and the carrying value reflects an expectation to receive the notional amount over a five year period.

(4) - unsecured long-term promissory notes with notional amounts of US$7.8 million (bearing interest at 8% per annum) and US$6.0 million (bearing interest at 12% per annum)

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 represents loans that are credit impaired. As at March 31, 2020 the Corporation had $24.8 million (December 31, 2019 - $23.8 million) of promissory notes and other receivables classified as stage 1 and $2.6 million classified as stage 3 (December 31, 2019 - $2.4 million). There was no transfer between stages during the three months ended March 31, 2020. The cumulative total credit loss provision as at March 31, 2020 is $45.1 million (December 31, 2019 - $43.5 million).

5. Share capital:

The Corporation has authorized, issued and outstanding, 36,409,305 voting common shares as at March 31, 2020 (December 31, 2019 – 36,709,081).

Issued Common Shares	Number of Shares	Amount ($)
	thousands	*$ thousands*
Balance at December 31, 2018	36,496	$ 621,082
RSUs vested	213	4,231
Balance at December 31, 2019	36,709	$ 625,313
RSUs vested	12	163
Common shares repurchased under the NCIB	(312)	(2,441)
Balance at March 31, 2020	**36,409**	**$ 623,035**

Weighted Average Shares Outstanding	Three months ended March 31	
thousands	2020	2019
Weighted average shares outstanding, basic	36,694	36,496
Effect of outstanding RSUs	410	276
Weighted average shares outstanding, fully diluted	37,104	36,772

There were 1,433,866 and 2,242,364 options excluded from the calculation as they were anti-dilutive at March 31, 2020 and March 31, 2019 respectively.

Dividends

For each of the three months in 2020, the Corporation declared a monthly dividend of $0.1375 per common share, totaling $0.4125 per share and $15.1 million (2019 - $0.4125 per share and $15.0 million).

Beginning with the three months ending June 30, 2020, the Corporation will declare and pay dividends on a quarterly basis.

Normal Course Issuer Bid

On March 20, 2020, the Corporation announced that it had received approval from the Toronto Stock Exchange ("TSX") to establish a normal course issuer bid ("NCIB") program. Under the NCIB, the Corporation may purchase for cancellation up to 3,473,720 common shares. The NCIB represents approximately 10% of the Corporation's public float of its issued and outstanding shares as at March 19, 2020. The program commenced on March 24, 2020 and will remain in effect until March 23, 2021 or such earlier time as the NCIB is completed or terminated at the option of the Corporation.

During the three months ended March 31, 2020, the Corporation purchased 312,369 common shares for cancellation for a total cost, including transaction costs, of $2.4 million under the NCIB. The weighted-average price of the shares repurchased was $7.81 per share.

Subsequent to March 31, 2020, the Corporation purchased an additional 702,238 common shares for cancellation for a total cost, including transaction costs, of $6.2 million under the NCIB. The weighted-average price of the shares repurchased to date is $8.52 per share.

6. Loans and borrowings:

As at March 31, 2020 the Corporation has a $330 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 and the applicable spread determined by the Corporation's Funded Debt to Contracted EBITDA. The Corporation realized a blended interest rate of 5.9% for the three months ended March 31, 2020. At March 31, 2020, the Corporation had USD$101.0 million and CAD$8.0

million (CAD$150.5 million) drawn on its credit facility (December 31, 2019 - USD$197.2 million and CAD$27.5 million, total of CAD$285.2 million).

At March 31, 2020 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 1.69:1 at March 31, 2020); minimum tangible net worth of $450.0 million (actual amount is $570.4 million at March 31, 2020); and a minimum fixed charge coverage ratio of 1:1 (actual ratio is 1.28:1 at March 31, 2020).

7. Convertible debenture:

The Corporation has convertible unsecured subordinated debentures (“Debentures”) that bear interest at 5.50% per annum, payable semi-annually on the last business day of June and December 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 January 1, 2019	$ -	$ -	$ -
Face value of issuance	94,500	5,500	100,000
Issuance Cost	(4,473)	-	(4,473)
Deferred taxes	-	(1,441)	(1,441)
Accretion	912	-	912
Balance at December 31, 2019	$ 90,939	$ 4,059	$ 94,998
Accretion	427	-	427
Balance at March 31, 2020	**$ 91,366**	**$ 4,059**	**$ 95,425**

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 910,232 and issued 410,268 RSUs to management and Directors as of March 31, 2020. The RSUs issued to directors (93,750) vest over a three year period. The RSUs issued to management (316,518) are a combination of time vested units (188,406) and performance vested units (128,112). The time vested units do not vest until the end of a three year period (29,888 in 2020, 73,725 in 2021, 17,493 in 2022, and 67,300 in 2023). The performance vested units vest one third every year (24,575 in 2020, 52,839 in 2021, 28,264 in 2022 and 22,434 in 2023) and are subject to certain performance conditions relating to operating cash flow per share (for the August 2020 units) and book value per share (all units vesting after August 2020). The stock-based compensation expense relating to the RSU Plan is based on

8. Share-based payments (continued):

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 1,433,866 options as of March 31, 2020. The options outstanding at March 31, 2020, have an exercise price in the range of $20.60 to $24.78, a weighted average exercise price of $22.67 (2019 – $25.56) and a weighted average contractual life of 1.5 years (2019 – 2.05 years).

For the three months ended March 31, 2020 the Corporation incurred stock-based compensation expenses of $0.7 million (2019 - $0.4 million) which includes: $0.6 million (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2019 - $0.2 million); and $0.1 million (non-cash expense) for the amortization of the fair value of outstanding stock options (2019 - $0.2 million).

9. Income taxes:

In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency ("CRA") in respect of its taxation year ended July 14, 2009. The Corporation has since received notices of reassessment from the CRA 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 $7.6 million in investment tax credits ("ITCs") by the Corporation was denied, resulting in reassessed taxes and interest of approximately $50.9 million.

The Corporation has received legal advice that it should be entitled to deduct the non-capital losses and claim the ITCs 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 CRA. 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 and 2019 taxation years, thereby disallowing ITC's of $0.5 million, on the same basis. The carrying values of the remaining ITCs of $3.3 million at March 31, 2020 are at risk should the Corporation be unsuccessful in defending its position.

The Corporation anticipates that appeals and 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 ITCs in subsequent tax filings.

On April 8, 2020, the U.S. Treasury Department and IRS published the final regulations ("Regulations") addressing hybrid financing arrangements. The key impact that these Regulations have on Alaris is that certain interest payments made by the Corporation's US entities are no longer deductible beginning with the Corporation's tax year that began on January 1, 2019. Management is reviewing the impact of the Regulations on the Corporation and its preliminary estimate is that there is an increase in current tax expense of $6.1 million and deferred tax expense of $5.4 million. As the Regulations were substantively enacted on April 8, 2020, this is not included in the March 31, 2020 tax provision. In connection with these Regulations, all taxes have been paid, with the exception of $1.8 million that is due July 15, 2020. The Corporation is in the process of analyzing its capital structure to minimize the future effects of these Regulations.

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 March 31, 2020 and December 31, 2019, are measured at fair value on a recurring basis using level 2 or level 3 inputs. Discount rates, terminal growth rates, estimates used to determine changes in future distributions from each investment, earnings and earnings multiples 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 months ended March 31, 2020.

Fair value classification *($ thousands)*	**Level 1**	**Level 2**	**Level 3**	**Total**
31-Mar-20				
Derivative contracts	$ -	$ (6,835)	$ -	$ (6,835)
Investments	-	-	739,720	739,720
Total at March 31, 2020	**$ -**	**($ 6,835)**	**$ 739,720**	**$ 732,885**
31-Dec-19	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative contracts	$ -	$ 555	$ -	$ 555
Investments	-	-	881,037	881,037
Total at December 31, 2019	**$ -**	**$ 555**	**$ 881,037**	**$ 881,592**

The Corporation purchases forward exchange rate contracts to match between 75% and 90% of monthly dividends and expenses in Canadian dollars on a rolling 12 month basis and also for between 20% to 50% of the expected costs on a rolling 12 to 24 month basis. The notional value of outstanding foreign exchange contracts is US$68.2 million as at March 31, 2020 (US$41.9 million as at December 31, 2019). The interest rate swap was initiated in Q3 2019 and it expires in September 2021 along with the maturity of the credit facility. The interest rate swap allows for a fixed interest rate of 1.50% in replace of LIBOR on $50.0 million notional amount of USD debt. The total position of the forward exchange rate contracts and the interest rate swap is included above and in the statement of financial position as Derivative Contracts.

The most significant inputs in the calculation of fair value of Level 3 Investments is the discount rate applied to expected future cash flows, terminal growth rates, future distributions, earnings and earnings multiples.

As outlined in Note 4, cash flows have been discounted at rates ranging from 12.5% to 19.5%. If the discount rate increased (decreased) by 1%, the fair value of Level 3 investments at March 31, 2020 would decrease by $48.5 million and increase by $56.7 million. If the terminal growth rate increased (decreased) by 1%, the fair value of Level 3 investments would increase by $32.4 million and decrease by $27.7 million. If future distributions increased (decreased) by 1% the fair value of Level 3 investments would increase by $5.2 million and decrease by $4.7 million.

As previously disclosed, the Corporation has made estimates related to the impact of the ongoing COVID 19 pandemic in determining the fair value of its Level 3 investments. The sensitivities disclosed above relate to a 1% change in each assumption. While a 1% change in discount rates and terminal growth rates would be considered significant, a larger change in the future distributions, earnings and earnings multiples is a possibility based on the current economic uncertainty. If future distributions increased (decreased) by 5% the fair value of Level 3 investments would increase and decrease by $25.7 million, respectively.

11. Commitments:

The Corporation has a commitment of up to US$45.0 million to BCC to fund additional contributions when specified metrics are achieved and a commitment to an additional US$4.0 million to Stride which is subject to the Corporation's approval and Stride achieving certain financial targets. The timing of both of these commitments is unknown at this time.

The Corporation also has committed to an additional US$3.5 million to PFGP (an additional US$2.8 million of preferred equity and US$0.7 million of common equity, terms consistent with the two existing classes). Timing of the additional funding is expected to be within the next twelve months.

12. Financial Risk Management

As disclosed in its consolidated financial statements for the year ended December 31, 2019, the Corporation has exposure to credit risk, other price risk, liquidity risk, and market risk, including foreign exchange risk and interest rate risk. Due to the current global economic situation, the Corporation has provided updated disclosures on these risks as follows:

Credit Risk and Other Price Risk

The risks on which the Corporation is exposed has not changed in the period. However, as the Corporation's exposure to these risks is influenced by the individual characteristics of each Partner, this risk has changed for each Partner during the period. The carrying amount of investments, trade and other receivables, promissory notes, and cash and cash equivalents continues to represent the maximum credit exposure. Specific discussion on the impact of the current global pandemic are included in Note 4 and Note 10.

Liquidity Risk

Liquidity risk is the risk the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities. The most significant financial liability is that of the loans and borrowings and the convertible debenture, both of which are not due within the next twelve months. During the period, distributions from Partners were received as expected and continue to generate cash flows to satisfy these obligations. There is increased risk that in future periods, should these distributions decrease, that the Corporation will not have sufficient liquidity to meet these liabilities. The Corporation is onside with its lending covenants as previously disclosed, and currently has enough resources to satisfy those obligations becoming due within the next twelve months.

Market Risk

Market risk includes the risk that changes in market prices, such as foreign exchange rates and interest rates will impact the Corporation's income or value of its financial instruments. There has been a significant impact on interest rates in the period due to the current global pandemic, and also resulting impacts on foreign exchange rates. The Corporation continues to manage these risks in the same manner as those disclosed in the consolidated financial statements for the year ended December 31, 2019 through the use of derivative contracts, and does not believe its risks related to these factors have increased significantly.