Unaudited Condensed Consolidated Interim Financial Statements of

ALARIS ROYALTY CORP.

For the three and nine months ended September 30, 2016

Alaris Royalty Corp.

Condensed consolidated statement of financial position (unaudited)

	Note	30-Sep 2016	31-Dec 2015
Assets			
Cash and cash equivalents		$ 67,822,062	$ 20,990,702
Prepayments		2,015,515	2,434,451
Income tax receivable		4,174,899	3,528,509
Trade and other receivables		20,780,517	10,577,985
Investment tax credit receivable	9	2,290,000	3,796,888
Promissory note receivable	4	18,187,500	11,750,000
Current Assets		115,270,493	53,078,535
Promissory note receivable	4	7,234,945	7,234,945
Deposits		16,145,132	11,981,345
Equipment		695,727	791,942
Intangible assets	4	6,229,189	6,297,392
Investments at fair value	4	664,319,940	704,109,367
Investment tax credit receivable	9	3,901,677	4,716,919
Non-current assets		698,526,610	735,131,910
Total Assets		$ 813,797,104	$ 788,210,445
Liabilities			
Accounts payable and accrued liabilities		$ 3,378,244	$ 2,138,132
Dividends payable	5	4,905,367	4,900,869
Foreign exchange contracts	8	354,893	5,345,488
Income tax payable		-	1,841,634
Current Liabilities		8,638,504	14,226,123
Deferred income taxes		19,809,608	19,490,794
Loans and borrowings	6	140,471,553	77,447,075
Non-current liabilities		160,281,161	96,937,869
Total Liabilities		$ 168,919,665	$ 111,163,992
Equity			
Share capital	5	$ 617,892,818	$ 617,626,773
Equity reserve		11,157,547	7,525,767
Fair value reserve		(23,936,119)	1,874,903
Translation reserve		16,612,744	27,651,191
Retained earnings		23,150,449	22,367,819
Total Equity		$ 644,877,439	$ 677,046,453
Total Liabilities and Equity		$ 813,797,104	$ 788,210,445
Commitments & contingencies	9		
Subsequent events	10		

Alaris Royalty Corp.

Condensed consolidated statement of comprehensive income / (loss) (unaudited)

For the three and nine months ended September 30

		Three months ended September 30		Nine months ended September 30	
	Note	2016	2015	2016	2015
Revenues					
Royalties and distributions	4	$ 22,867,234	$ 22,824,948	$ 71,647,755	$ 59,178,710
Interest and other	4	427,137	201,379	1,126,095	677,975
Total Revenue		23,294,371	23,026,327	72,773,850	59,856,685
Other income					
Gain on partner redemption	4	1,588,747	-	20,176,754	2,792,457
Realized gain/(loss) on foreign		308,091	(1,297,300)	(1,754,239)	(2,389,206)
Unrealized gain/(loss) on foreign exchange contracts	8	596,829	(2,646,919)	4,990,595	(3,263,885)
Total Other income / (loss)		2,493,667	(3,944,219)	23,413,110	(2,860,634)
Salaries and benefits		623,132	510,339	2,760,925	2,316,018
Corporate and office		428,219	636,835	2,639,463	2,238,042
Legal and accounting fees		540,982	609,256	1,837,072	1,518,193
Non-cash stock-based compensation	7	1,026,196	191,610	3,897,824	2,646,387
Bad debt expense	4	-	3,570,277	853,122	3,570,277
Impairment of preferred units	4	-	20,460,000	7,000,000	20,460,000
Depreciation and amortization		69,337	63,693	207,518	140,515
Subtotal		2,687,866	26,042,010	19,195,924	32,889,432
Earnings / (loss) from operations		**23,100,172**	**(6,959,902)**	**76,991,036**	**24,106,619**
Finance costs		1,523,191	871,359	4,398,830	2,352,287
Unrealized foreign exchange loss/(gain)		(1,476,958)	(16,684,292)	13,343,726	(25,946,115)
Earnings before taxes		23,053,939	8,853,031	59,248,480	47,700,447
Current income tax expense		4,646,558	2,542,484	5,593,102	5,984,185
Deferred income tax expense / (recovery)		1,381,430	(155,705)	8,746,534	4,405,056
Total income tax expense		6,027,988	2,386,779	14,339,636	10,389,241
Earnings		**17,025,951**	**6,466,252**	**44,908,844**	**37,311,206**
Other comprehensive income					
Transfer on redemption of Investments at Fair Value		(8,712,747)	5,460,000	(27,399,056)	2,667,543
Net change in fair value of Investments at Fair Value		(3,168,540)	-	(3,833,225)	2,176,700
Tax effect of items in other comprehensive income		529,565	(69,383)	5,421,259	(1,172,189)
Foreign currency translation differences		422,539	9,538,953	(11,038,447)	14,953,564
Other comprehensive income / (loss) for the period, net of income tax		(10,929,183)	14,929,570	(36,849,469)	18,625,618
Total comprehensive income for the period		6,096,768	21,395,822	8,059,375	55,936,824
Earnings per share					
Basic earnings per share		$0.47	$0.18	$1.24	$1.12
Fully diluted earnings per share		$0.46	$0.18	$1.22	$1.10
Weighted average shares outstanding					
Basic		36,364,700	35,336,120	36,325,727	33,234,111
Fully Diluted		36,738,172	35,855,490	36,762,407	33,812,281

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the nine months ended September 30, 2015

	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2015		$ 498,363,066	$ 8,858,711	$ (2,637,352)	$ 7,071,417	$ 18,023,873	$ 529,679,715
Total comprehensive income for the period							
Earnings for the period		-	-	-	-	37,311,206	37,311,206
Other comprehensive income							
Transfer on redemption of preferred units		-	-	2,667,543	-	-	2,667,543
Net change in fair value of preferred units		-	-	2,176,700	-	-	2,176,700
Tax effect on items in other comprehensive income		-	-	(1,172,189)	-	-	(1,172,189)
Foreign currency translation differences		-	-	-	14,953,564	-	14,953,564
Total other comprehensive income		-	-	3,672,054	14,953,564	-	18,625,618
Total comprehensive income for the period		$0	$0	$ 3,672,054	$ 14,953,564	$ 37,311,206	$ 55,936,824
Transactions with shareholders of the Company, recognized directly in equity							
Contributions by and distributions to shareholders of the Company							
Non-cash stock based compensation	7	-	$2,646,387	-	-	-	$2,646,387
Dividends to shareholders	5	-	-	-	-	(38,857,230)	(38,857,230)
Shares issued in the period		115,035,478	-	-	-	-	115,035,478
Share issue costs, net of tax		(3,968,826)	-	-	-	-	(3,968,826)
Options exercised in the period		1,791,048	(586,012)	-	-	-	1,205,036
Payments in lieu of dividends on RSUs		720,225	(720,225)	-	-	-	-
Total transactions with Shareholders of the Company		113,577,925	1,340,150	-	-	(38,857,230)	76,060,845
Balance at September 30, 2015		$ 611,940,991	$ 10,198,863	$ 1,034,703	$ 22,024,981	$ 16,477,849	$ 661,677,386

Alaris Royalty Corp.

Condensed consolidated statement of changes in equity (unaudited)

For the nine months ended September 30, 2016

	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2016		$ 617,626,773	$ 7,525,767	$ 1,874,903	$ 27,651,191	$ 22,367,819	$ 677,046,453
Total comprehensive income for the period							
Earnings for the period		-	-	-	-	44,908,844	44,908,844
Other comprehensive income							
Transfer on redemption of preferred units		-	-	(27,399,056)	-	-	(27,399,056)
Net change in fair value of preferred units				(3,833,225)	-	-	(3,833,225)
Tax effect on items in other comprehensive income		-	-	5,421,259	-	-	5,421,259
Foreign currency translation differences		-	-	-	(11,038,447)	-	(11,038,447)
Total other comprehensive income		-	-	(25,811,022)	(11,038,447)	-	(36,849,469)
Total comprehensive income for the period		$-	$-	($ 25,811,022)	($ 11,038,447)	$ 44,908,844	$ 8,059,375
Transactions with shareholders of the Company, recognized directly in equity							
Contributions by and distributions to shareholders of the Company							
Non-cash stock based compensation	7	-	$3,897,824	-	-	-	$3,897,824
Dividends to shareholders	5	-	-	-	-	(44,126,214)	(44,126,214)
Options exercised in the period		266,045	(266,045)	-	-	-	-
Payments in lieu of dividends on RSUs		-	-	-	-	-	-
Total transactions with Shareholders of the Company		266,045	3,631,779	-	-	(44,126,214)	(40,228,390)
Balance at September 30, 2016		$ 617,892,818	$ 11,157,547	($ 23,936,119)	$ 16,612,744	$ 23,150,449	$ 644,877,439

Alaris Royalty Corp.

Condensed consolidated statement of cash flows (unaudited)

For the nine months ended September 30

	2016	2015
Cash flows from operating activities		
Earnings from the year	$ 44,908,844	$ 37,311,206
Adjustments for:		
Finance costs	4,398,830	2,352,287
Deferred income tax expense	8,746,534	4,405,056
Depreciation and amortization	207,518	140,515
Bad debt expense	853,122	3,570,277
Impairment of preferred units	7,000,000	20,460,000
Gain on partner redemption	(20,176,754)	(2,792,457)
Unrealized (gain) / loss on foreign exchange contracts	(4,990,595)	3,263,885
Unrealized foreign exchange (gain) / loss	13,343,726	(25,946,115)
Non-cash stock-based compensation	3,897,824	2,646,387
	$ 58,189,049	$ 45,411,041
Change in:		
- trade and other receivables	(11,055,654)	(2,988,422)
- income tax receivable	(646,390)	-
- prepayments and deposits	418,936	(61,437)
- trade and other payables	(601,522)	3,296,871
Cash generated from operating activities	46,304,419	45,658,053
Finance costs	(4,398,830)	(2,352,287)
Net cash from operating activities	$ 41,905,589	$ 43,305,766
Cash flows from investing activities		
Acquisition of equipment	$ (43,101)	$ (740,878)
Acquisition of preferred units	(83,644,331)	(153,815,710)
Proceeds from partner redemptions, reduction of interest	82,996,400	44,300,000
Promissory notes issued	(6,750,000)	(4,964,850)
Promissory notes repaid	312,500	3,265,000
Net cash used in investing activities	$ (7,128,532)	$ (111,956,438)
Cash flows from financing activities		
New share capital, net of share issue costs	$ -	$ 109,637,852
Proceeds from exercise of options	-	1,205,035
Repayment of debt	(35,455,076)	157,000,000
Proceeds from debt	99,656,500	(150,800,000)
Dividends paid	(44,121,716)	(38,007,711)
Deposits with CRA	(4,163,787)	(10,591,094)
Net cash from in financing activities	$ 15,915,921	$ 68,444,082
Net increase in cash and cash equivalents	$ 50,692,979	$ (206,590)
Impact of foreign exchange on cash balances	(3,861,619)	1,315,188
Cash and cash equivalents, Beginning of period	20,990,702	13,483,524
Cash and cash equivalents, End of period	$ 67,822,062	$ 14,592,122

1. **Reporting entity:**

Alaris Royalty Corporation is a company domiciled in Calgary, Alberta, Canada. The condensed consolidated interim financial statements of the Company as at and for the three and nine months ended September 30, 2016 comprise the Company and its subsidiaries (together referred to as the "Corporation"). The Corporation's Canadian operations are conducted through a partnership and Salaris Small Cap. Royalty Corp. ("Salaris"). The Corporation's American operations are conducted through two Delaware Corporations, Alaris USA ("Alaris USA") formed on October 21, 2011 and Salaris USA Royalty Inc. ("Salaris USA") formed on February 22, 2016. The Corporation's operations consist primarily of investments in private operating entities, typically in the form of preferred limited partnership interests, preferred interest in limited liability corporations in the United States, loans receivable, or long-term license and royalty arrangements. The Corporation also has wholly-owned subsidiaries in the Netherlands, Alaris Cooperatief U.A. ("Alaris Cooperatief") and Salaris Cooperatief U.A. ("Salaris Cooperatief").

2. **Statement of compliance:**

(a) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting". The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. These interim financial statements should be read in conjunction with the audited financial statements and accompanying notes disclosed in the Corporation`s annual report for the year ended December 31, 2015. These interim financial statements were approved by the Board of Directors on November 8, 2016.

(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:

- Available-for-sale financial assets (Investments at Fair Value) are measured at fair value with changes in fair value recorded in other comprehensive income or earnings if the asset is impaired.
- Derivative financial instruments are measured at fair value

(c) Functional and presentation currency

These condensed consolidated 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 and Salaris Cooperatief have 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. 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 required.

Key assumptions used in discounted cash flow projections

Key assumptions used in the calculation of the fair value of available for sale financial assets are discount rates, terminal value growth rates and annual performance metric growth rates. See note 8 for details in respect of the calculation.

Utilization of tax pools

Management makes estimates on future taxable income that generates the calculations for the deferred income tax expense, assets and liabilities.

Income taxes

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

3. Significant accounting policies:

There have been no changes to the Corporation's accounting policies from those disclosed in the consolidated financial statements of the Corporation for the year ended December 31, 2015.

These condensed consolidated interim financial statements were prepared on the same basis of the audited financial statements for the year ending December 31, 2015.

4. Investments

Investments at Fair Value

30-Sep-16	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LMS	$ 60,033,897	$ 670,065	$ 60,703,962	$ 39,061,498
KMH	54,800,000	589,147	55,389,147	28,001,154
Labstat	47,200,000	518,944	47,718,944	49,198,944
Agility Health	26,318,940	815,066	27,134,006	26,227,325
SCR	40,000,000	487,339	40,487,339	30,488,337
Sequel	96,240,900	747,623	96,988,523	106,441,081
SMi	40,500,000	732,310	41,232,310	42,632,310
Kimco	42,162,680	1,306,235	43,468,915	27,677,551
Planet Fitness	52,376,000	821,401	53,197,401	56,104,269
DNT	91,658,000	737,107	92,395,107	96,428,060
Federal Resources	17,313,551	1,806,088	19,119,639	21,181,873
MAHC	17,382,286	1,296,848	18,679,134	18,679,136
Sandbox	28,806,800	728,197	29,534,997	29,747,455
Providence	39,078,000	523,710	39,601,710	39,807,280
Capitalized costs	-	267,666	267,666	267,667
Total LP and LLC Units	653,871,054	12,047,746	665,918,801	611,943,940
FR Loan Receivable	52,376,000	-	52,376,000	52,376,000
Total Investments at Fair Value	$ 706,247,054	$ 12,047,746	$ 718,294,801	$ 664,319,940

31-Dec-15	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LifeMark Health	$ 19,502,159	$ 499,894	$ 20,002,053	$ 38,467,202
LMS	54,228,822	333,280	54,562,102	33,028,822
Solowave	42,500,000	511,253	43,011,253	50,474,000
KMH	54,800,000	589,147	55,389,147	35,001,153
Labstat	47,200,000	518,944	47,718,944	46,998,944
Agility Health	27,870,660	863,121	28,733,781	27,724,336
SCR	40,000,000	487,339	40,487,339	32,988,339
Sequel	101,915,100	791,701	102,706,801	108,903,516
SMi	40,500,000	717,310	41,217,310	42,617,310
Kimco	44,648,520	1,341,585	45,990,105	45,352,269
Planet Fitness	55,464,000	869,829	56,333,829	58,275,071
DNT	97,062,000	780,566	97,842,566	97,842,566
Federal Resources	9,706,200	1,567,062	11,273,262	11,273,262
MAHC	18,407,116	1,114,882	19,521,998	19,521,998
Capitalized costs	-	176,579	176,579	176,579
Total LP and LLC Units	653,804,577	11,162,492	664,967,069	648,645,367
FR Loan Receivable	55,464,000	-	55,464,000	55,464,000
Total Investments at Fair Value	$ 709,268,577	$ 11,162,492	$ 720,431,069	$ 704,109,367

The difference in the acquisition cost of Agility, Sequel, Kimco, Planet Fitness, DNT, Federal Resources, and MAHC at September 30, 2016 and December 31, 2015 is due to foreign currency translation.

Investment in Sandbox Acquisitions, LLC ("Sandbox")

The Corporation holds 556 Class B units, 1,444 Class C units and 1 Class D unit in Sandbox Acquisitions, LLC along with 200,000 Preferred units in Sandbox Advertising Limited Partnership (collectively the "Sandbox units") acquired on March 8, 2016 for $22.0 million USD. Sandbox offers a wide range of marketing and advertising services including strategic marketing and planning, creative development for all media and digital strategy solutions including CRM and data analytics for clients in a variety of industries within the US and Canada.

Pursuant to the LLC agreement dated March 8, 2016, the Sandbox units entitle the Corporation to receive an initial annual preferred distribution of $3.3 million USD in priority to distributions on Sandbox's other LLC units. After the initial annual preferred distribution the distribution is an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in Sandbox's gross revenues for the previous fiscal year subject to a maximum increase or decrease of 6%. Distributions on the Sandbox units are receivable monthly.

Sandbox has the option at any time after March 8, 2019 to repurchase the Sandbox units at a pre-negotiated premium to the original purchase price.

Lower Mainland Steel ("LMS") Additional Contribution

On March 16, 2016 Alaris made an additional contribution to LMS of $4.35 million USD ($5.8 million CAD) in exchange for an annual distribution of $622,000 USD (approximately $818,000 CAD) (the "Additional LMS Distribution") for the first full year following closing (for 2016 Alaris will receive the pro-rata portion of the Additional LMS Distribution based on the calendar days remaining in the year). The Additional LMS Distribution will be adjusted annually (with the first reset being January 1, 2018), subject to a 6% collar. LMS used the proceeds from Alaris to fund a portion of the purchase price for a strategic acquisition of a rebar fabricator and installer in California.

Investment in LifeMark Health Limited Partnership ("LifeMark Health")

At December 31, 2015, the Corporation held 6,750,000 preferred units in LifeMark Health. On March 4, 2016, the Corporation redeemed all of its preferred units in LifeMark in exchange for $30 million in cash and an $8.4 million promissory note with interest at 11.15% from Centric Health Corporation ("Centric"). The promissory note, along with all interest accrued and owing, was repaid in full by Centric on March 23, 2016. The Corporation realized a gain on redemption of $18.6 million that had accumulated through comprehensive income over the life of the investment.

Investment in Providence Industries, LLC

On April 1, 2016 the Corporation, through its wholly-owned subsidiary Alaris USA Inc., collectively contributed $30.0 million USD to Providence Industries, LLC ("Providence"). Providence is a leading provider of design, engineering, development, manufacturing and sourcing services for international apparel companies and retailers. The Company utilizes its extensive global network of sourcing and manufacturing partners to provide value-added sourcing excellence to customers, combined with rapid speed to market. In addition, Providence's unique design expertise and focus on innovation enables customers to remain at the forefront of evolving fashion trends.

Pursuant to agreements dated April 1, 2016, the Corporation is entitled to receive an annual preferred distribution of $4.5 million USD in priority to distributions on Providence's common shares. After the initial annual preferred distribution, the distribution is an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in Providence's same customer revenues for the previous fiscal year subject to a maximum increase or decrease of 5%. Distributions on the Providence units are receivable monthly.

Federal Resources Additional Contribution

On April 29, 2016 Alaris contributed an additional $6.5 million USD ($8.15 million CAD) to Federal Resources (the "Additional FED Distribution") in exchange for an annual distribution of $910,000 USD (approximately $1.1 million CAD) for the first full year following closing (for 2016 Alaris will receive the pro-rata portion of the Additional FED Distribution based on the calendar days remaining in the year). The Additional FED Distribution will be adjusted annually (with the first reset being January 1, 2018), subject to a 6% collar. Federal Resources used the proceeds from Alaris to fund a portion of the purchase price for a strategic acquisition of a single point training and support provider to complement Federal Resources existing business.

KMH Limited Partnership (“KMH”)

The fair value of the KMH units was decreased to $28 million from $35 million, to reflect the total consideration currently expected to be received on redemption. The decrease is a result of continuing negotiations for the Corporation to receive more up-front cash and reduce any note payable going forward from the redemption process. The impairment of $7 million was recognized in the second quarter and was recorded as a permanent impairment through earnings. During the period the Corporation also recorded a bad debt expense of $748 thousand related to accrued interest on the KMH outstanding promissory notes.

Redemption of Solowave Preferred Units

At December 31, 2015 the Corporation held 4.25 million preferred units in Solowave Design Inc. (“Solowave Investment”). On September 30, 2016 Solowave sold its children’s play division (the “Solowave Sale”) which represents the majority of Solowave’s earnings and resulted in the repurchase of all Alaris Preferred Units in Solowave (“Solowave Repurchase”) for total proceeds to Alaris of $44.6 million. The Corporation recognized a gain of $1.5 million through earnings as proceeds on redemption ($44.6 million) exceeded the total capital invested ($42.5 million) plus costs.

Royalties and Distributions:

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

Royalties and distributions:	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Sequel LLC	$ 3,990,679	$ 3,857,763	$ 11,851,933	$ 10,856,801
DNT	3,423,262	3,431,630	10,416,159	4,512,783
Federal Resources	2,693,455	2,190,083	7,491,783	2,309,382
Planet Fitness	2,028,691	1,949,784	6,172,818	5,218,390
Solowave	1,719,864	1,622,514	5,159,592	4,867,541
Group SM	1,594,134	1,692,000	4,782,402	5,103,097
Labstat	1,724,999	1,500,000	4,474,998	4,500,000
LMS	1,201,781	1,056,210	3,464,955	3,111,322
Kimco	-	1,526,912	2,816,214	4,435,654
Agility Health	1,003,255	1,037,988	3,052,661	3,015,705
SCR	-	1,600,000	3,007,998	4,800,000
Providence	1,467,113	-	2,917,575	-
Sandbox	1,073,685	-	2,407,406	-
Mid-Atlantic HealthCare	649,196	-	1,975,349	-
End of the Roll	297,120	290,114	925,696	892,772
LifeMark Health	-	1,069,950	730,216	3,127,548
KMH	-	-	-	1,890,000
Killick	-	-	-	537,715
Total Distributions	$ 22,867,234	$ 22,824,948	$ 71,647,755	$ 59,178,710
Other Income				
Interest	427,137	201,379	1,126,095	677,975
Total Income	**$ 23,294,371**	**$ 23,026,327**	**$ 72,773,850**	**$ 59,856,685**

Intangible Assets:

The Corporation holds intangible assets in End of the Roll, net of accumulated amortization of $1,045,731 (December 31, 2015 - $977,528), of $6,229,189.

Promissory Notes:

As part of being a long-term partner with the companies the Corporation holds preferred interests in, from time to time the Corporation has offered alternative financing solutions to assist with short-term needs of the individual businesses. The terms of the various notes differ: the KMH note is a demand note and payment has been demanded though timing of collection is uncertain; the Labstat note (interest at 7%) is due July 2017; the SMI note is a demand note (interest at 8%) and is expected to be repaid in the next twelve months; and the SHS note is secured against certain assets of the SHS business. The Corporation received partial settlement on the SHS note of $312,500 in March 2016. The remainder is expected to be collected as the Corporation is a secured creditor the receivership process. No interest is currently being accrued on the KMH and SHS notes. At September 30, 2016, the following is a summary of the outstanding promissory notes:

Partner	30-Sep-16	31-Dec-15
Current		
Group SM	17,000,000	10,250,000
SHS	1,187,500	1,500,000
Total Current	$18,187,500	$11,750,000
Non-Current		
KMH	$3,500,000	$3,500,000
Labstat	3,734,945	3,734,945
Total Non-current	7,234,945	7,234,945
Total	$25,422,445	$18,984,945

Trade receivables are due mostly from four partner companies with approximately half of the outstanding balance over 90 days. Group SM is approximately 46% ($9.3 million) and includes unpaid distributions from July 2015 through September 2016 plus accrued interest on short term loans the full amount of which is expected to be collected in 2016 following a successful outcome of an international lawsuit. Kimco is approximately 29% ($5.8 million) and includes unpaid distributions from July 2015 through June 2016 which amounts are expected to be paid in the next twelve months. Labstat is approximately 11% ($2.2 million) and includes the cash flow sweep for 2016 distributions. 50% of the cash sweep will be collected in December 2016 with the remainder collected in April 2017 as per the terms of the agreement with Labstat. Agility represents 11% ($2.3 million) in unpaid distributions which have been accrued since March 2016, as they undergo a strategic process, Agility restarted distributions in October 2016. SCR represents 3% ($501 thousand) with unpaid distributions accumulating from June 30th to December 31st. No allowances for doubtful accounts has been recorded at September 30, 2016 as the Corporation believes that all amounts recorded at September 30, 2016 will be realized. Should there be an adverse event in Kimco's or Group SM's businesses, collection could be negatively impacted. For the nine month period ended September 30, 2016 the Corporation wrote off accounts receivables of $853,122, relating to accrued interest on outstanding promissory notes to KMH ($748,027) and SHS ($105,095).

5. Share capital:

Issued Common Shares	Number of Shares	Amount
Balance at January 1, 2015	32,072,358	$ 498,363,066
Issued by short form prospectus	3,771,655	115,035,478
Short form prospectus costs, net of tax	-	(4,010,958)
Issued after director RSU vesting	170,585	3,795,607
Options exercised in the period	288,138	3,956,988
Fair value of options exercised in the period	-	486,592
Balance at December 31, 2015	36,302,736	$ 617,626,773
Issued after director RSU vesting	-	-
Options exercised in the period	-	-
Fair value of options exercised in the period	33,321	-
Balance at September 30, 2016	36,336,057	$ 617,892,818

The Corporation has authorized, issued and outstanding, 36,336,057 voting common shares as at September 30, 2016.

Weighted Average Shares Outstanding	Three months ending September 30		Nine months ended September 30	
	2016	2015	2016	2015
Weighted average shares outstanding, basic	36,364,700	35,336,120	36,325,727	33,234,111
Effect of outstanding options	56,435	272,390	119,643	331,190
Effect of outstanding RSUs	317,037	246,980	317,037	246,980
Weighted average shares outstanding, fully diluted	36,738,172	35,855,490	36,762,407	33,812,281

805,601 options were excluded from the calculation as they were anti-dilutive at September 30, 2016.

Dividends

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

In each of the first nine months of 2016, the Corporation declared a dividend of $0.135 per common share ($1.215 per share and $44,126,214 in aggregate). In each of the first five months of 2015, the Corporation declared a dividend of $0.125 per common share; for June the Corporation declared a dividend of $0.13 per common share; and for July through September the Corporation declared a dividend of $0.135 per common share ($38,857,230 in aggregate).

6. Loans and borrowings:

As at September 30, 2016 the Corporation has a $200 million credit facility with a syndicate of Canadian chartered banks. The interest rate on the facility is prime plus 2.25% (4.95% at September 30, 2016) when Funded Debt to Contract EBITDA is below 1.75:1 and prime plus 2.75% when Funded Debt to Contract EBITDA is above 1.75:1. The covenants on the new facility include a maximum debt to EBITDA of 1.75:1 (can extend to 2.25:1 for up to 90 days), minimum tangible net worth of $450 million; and a minimum fixed charge coverage ratio of 1:1. At September 30, 2016, the facility was $140.4 million drawn. At September 30, 2016, the Corporation met all of its covenants as required by the facility. Those covenants include a maximum debt to EBITDA of 2.25:1 (2.00:1 at September 30, 2016); minimum tangible net worth of $450.0 million ($646.1 million at September 30, 2016); and a minimum fixed charge coverage ratio of 1 (1.24:1 at September 30, 2016).

Subsequent to September 30, 2016, the Corporation repaid $22 million of the outstanding balance with cash on hand at September 30, 2016.

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 501,683 and issued 317,037 RSUs to management and Directors as of September 30, 2016. The RSUs issued to directors vest over a three-year period. The

RSUs issued to management (186,080) do not vest until the end of a three-year period (12,681 in July 2017; and 132,280 in July 2018, 42,580 in July 2019) and are subject to certain performance conditions relating to operating cash flow per share. The stock-based compensation expense relating to the RSU Plan is based on the issue price at the time of grant and management's estimate of the future performance conditions and will be amortized over the thirty-nine month vesting period.

The Corporation has reserved 2,300,898 and issued 1,899,484 options as of September 30, 2016. The options outstanding at September 30, 2016, have an exercise price in the range of $16.87 to $33.87, a weighted average exercise price of $27.34 and a weighted average contractual life of 2.23 years (2015 – 2.25 years).

For the three and nine months ended September 30, 2016, the Corporation incurred stock-based compensation expenses of $1,026,196 and $3,897,824 (2015 - $191,610 and $2,646,387) which includes: $690,422 and $2,747,272 (non-cash expense) for the RSU Plan expense (2015 - $612,045 and $1,409,927); and $335,733 and $1,150,551 (non-cash expense) for the amortization of the fair value of outstanding stock options (2015 - $513,398 and $1,044,851).

8. Fair Value of Financial Instruments

The Corporation's financial instruments as at September 30, 2016 and December 31, 2015 include cash and cash equivalents, trade and other receivables, income tax receivable, promissory notes receivable, investments at fair value, foreign exchange forward contracts, accounts payable and accrued liabilities, and loans and borrowings. The fair value of cash and cash equivalents, trade and other receivables, income tax receivable, promissory notes receivable accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity. Loans and borrowings bear interest at a floating market rate and accordingly the fair market value approximates the carrying value. Foreign exchange contracts are recorded at fair value determined by individual contract rates and the September 30, 2016 foreign exchange spot rate. The fair values of the investments at fair value are estimated by evaluating a number of different methods:

(a) A going concern value was calculated using a the discounted cash flow of the future expected distributions. Key assumptions used include the discount rate used in the calculation and estimates relating to changes in future distributions. For each individual Partner, the Corporation considered a number of different discount rate factors including what industry they operated in, the size of the company, the health of the balance sheet and the ability of the historical earnings to cover the future distributions. This was supported by the historical yield of the original investment, current investing yields, and the current yield of Alaris' publicly traded shares and of other similar public companies. Future distributions have been discounted at rates ranging from 13.25% - 19.50%. All of the investments except as noted below were valued on this basis at September 30, 2016.

(b) A redemption or retraction value is used when the partner company has indicated to the Corporation that they intend to repurchase the preferred position and was calculated using the formula specified in each of the Partnership agreements alongside an assessment of the likelihood of a redemption of the Preferred Units.

(c) 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 an estimate of the current value of the private company to determine if there would be sufficient value to cover the liquidation amount. If not, the value is reduced to what the calculation estimates may be recovered (the liquidation value). The Corporation's investment in KMH was valued on this basis at September 30, 2016.

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

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

The following items shown on the condensed consolidated statement of financial position as at September 30, 2016 and December 31, 2015, are measured at fair value on a recurring basis using level 2 or level 3 inputs. During the period ended September 30, 2016 there were no transfers between level 2 or level 3 classified assets and liabilities.

30-Sep-16	Level 1	Level 2	Level 3	Total
Foreign exchange contracts	$ -	(354,893)	-	(354,893)
Preferred LP and LLC units	-	-	664,319,940	664,319,940
	$ -	($ 354,893)	$ 664,319,940	$ 663,965,047
31-Dec-15	**Level 1**	**Level 2**	**Level 3**	**Total**
Foreign exchange contracts	-	(5,345,488)	-	(5,345,488)
Preferred LP and LLC units	-	-	704,109,367	704,109,367
	$-	($ 5,345,488)	$ 704,109,367	$ 698,763,879

9. Commitments and Contingencies:

In 2009, the Corporation signed a seven-year lease that commenced December 1, 2009, ending November 30, 2016. In December 2015, the Corporation signed a five-year lease at a new location as the Corporation has outgrown the current space. The Corporation's annual commitments under both leases are as follows:

Commitments and Contingencies		
2016	$	68,739
2017		410,494
2018		421,033
2019		431,572
2020		215,786
	$	1,547,625

Income taxes

In 2014, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009. In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation years ended December 31, 2009 through December 31, 2014 (the "Reassessments"). Pursuant to the Reassessments, the deduction of approximately $110 million of non-capital losses by the Corporation was denied, resulting in reassessed taxes and interest of approximately $34.2 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 for taxation years from 2006 through to 2012. 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 its July 14, 2009 tax return, and each return filed after that date, were filed correctly and it will be successful in appealing such Reassessment. The Corporation intends to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amount as a deposit to the Canada Revenue Agency. The Corporation paid $1.27 million in deposits in 2014 and an additional $10.7 million in 2015 relating to these reassessments. In the nine months ending September 30, 2016, the Corporation paid a $1.3 million deposit to the Alberta Treasury Board and Finance and a $2.9 million deposit to the CRA relating to reassessments for the December 31, 2015 year. It is possible that the Corporation may be reassessed with respect to the deduction of its non-capital losses in respect of its tax filings subsequent to December 31, 2015, on the same basis. Remaining investment tax credits of $7.7 million at September 30, 2016 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 of approximately $7.7 million at September 30, 2016.

10. Subsequent Events:

Subsequent to September 30, 2016, Salaris USA Inc. (wholly owned subsidiary of Alaris USA Inc.) announced a contribution of $18.0 million USD to Matisia LLC (the "Matisia Contribution") in exchange for an annual distribution of $2.7 million USD (the "Matisia Distribution"). The Matisia contribution is comprised of $12 million USD of permanent preferred units (the "Permanent Matisia Units") and $6.0 million USD of redeemable preferred units ("Redeemable Matisia Units"). This is the first transaction for Salaris, the Alaris Small Cap Division. Salaris USA Inc. funded the Matisia Contribution with funds drawn on the Corporations credit facility. The Redeemable Units are expected to be short-term, and can be redeemed at any time at par by Matisia, the Redeemable units entitle Alaris to an annual distribution of $0.9 million USD. Matisia is a Seattle, Washington-based management consulting firm that works with companies to provide innovative, customized consulting solutions across four primary service lines: Business Intelligence, Enterprise Resource Planning Services, Project Leadership & Product Management, and Organizational Change Management.